★ WHAT TO DO IN THIS MARKET ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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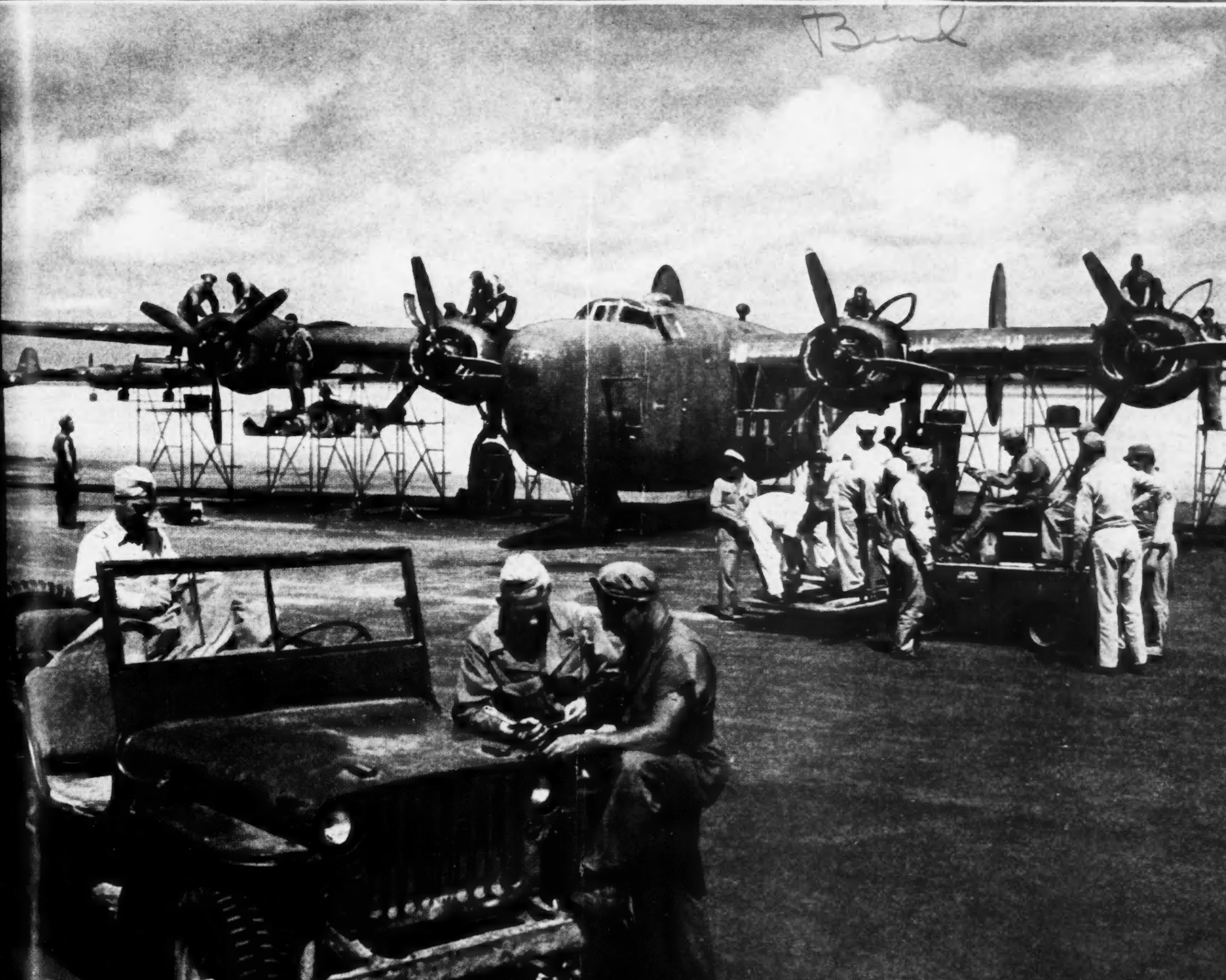

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By H. F. Travis

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By Ward Gates

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Cover Photo:— Huge four-engined CONSOLIDATED LIBERATOR EXPRESS receives thorough check-up before long hop over the Atlantic. Picture is one of a series taken by famous photographer IVAN DMITRI, on a world-girdling journey over the far-flung routes of the Army's Air Transport Command.

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To those who wonder why we need still bigger War Loans

In the 7th War Loan, you're being asked to lend 7 billion dollars—4 billion in E Bonds alone.

That's the biggest quota for individuals to date.

Maybe you've wondered why, when we've apparently got the Nazis pretty well cleaned up, Uncle Sam asks you to lend more money than ever before.

If you have, here are some of the answers:

This war isn't getting any cheaper

No matter what happens to Germany—or when —the cost of the war won't decrease this year.

We're building up a whole new air force—with new jet-propelled planes and bigger bombers. We're now building—even with announced reductions—enough new ships to make a fair-sized navy. We're moving a whole war half around the world. We're caring for wounded who are arriving home at the rate of one a minute.

Furthermore, there will be only 2 War Loans this year—instead of the 3 we had in 1944.

Each of us, therefore, must lend as much in two chunks this year as we did last year in three. That's another reason why your quota in the 7th is bigger than before.

The 7th War Loan is a challenge to every American. The goal for individuals is the highest for any war loan to date. The same goes for the E Bond goal. Find your personal quota—and make it!

THE MIGHTY 7th WAR LOAN

ALL OUT FOR THE MIGHTY 7th WAR LOAN

THE MAGAZINE of WALL STREET
and BUSINESS ANALYST

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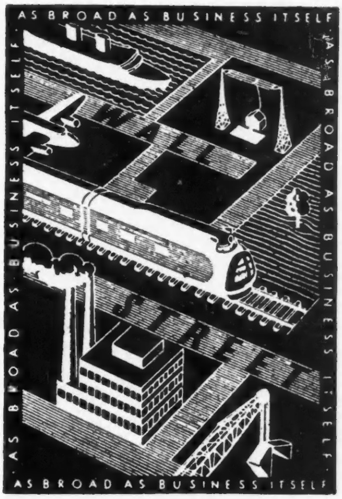
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

THE SEVENTH WAR LOAN . . . For the seventh time, the Treasury is calling upon the American people to make their savings available to help win the war. The European campaign has come to a victorious close but this is no cause for relaxation in our effort. A big and costly war job remains in the Pacific. VE-day won't obviate the further need for "fighting dollars."

The formal phase of the Seventh War Loan drive is scheduled to get under way on May 14. The overall sales target hasn't been raised. It remains $14 billion, the same as for the sixth campaign despite the fact that bond subscriptions then soared to over $21 billion, a new all-time high. The new goal can and should be easily reached, even topped by a substantial margin. We must meet this challenge just as resolutely as in the past.

Once again, emphasis is being placed upon the great importance of individual subscriptions. The quota for individuals has been set at $7 billion or half of the total. This is 40% more than the $5 billion quota assigned to individuals in the Sixth War Loan drive. The target for E-bond sales alone, $2 billion previously, has been upped to $4 billion.

The responsibility for meeting this goal rests squarely on the shoulders of all of us. Despite victory in Europe, there must be no let-down in our willingness to save and lend our savings to the Government. Let no one think that his or her contribution is less needed now. Expenditures throughout the period of the forthcoming one-front war will continue high. Strictly war costs will be swelled by contract termination payments, demobilization pay and the enormous expense of redeploying our forces against the remaining enemy in the East.

There is more than enough money in the hands of the people to do their part, so let's all respond to the limit of our ability. There is no better way of speeding final victory.

A SOUND MOVE . . . The Securities & Exchange Commission is taking steps to make it mandatory for all companies to disclose promptly any drastic changes in their war production activity. This is a sound move, prompted by SEC's reported awareness of "a number of cases involving contract terminations at the convenience of the armed services in which investors have been seriously harmed through lack of knowledge of current developments."

Main inspiration, we understand, have been disclosures at the recent public airing of the troubles of Elastic Stop Nut Corp. of America whose war orders were sharply curtailed last year without any knowledge of its security holders. Readers will remember this case which when it broke was made a subject of discussion elsewhere in this publication.

In trying to protect investors against future loss

from similar causes, the SEC is not proceeding blindly. Neither is it preparing any straight jacket for business. Hence it is now soliciting comments from war industries on the practicability of the new rules it has devised before they are actually placed into effect.

One rule would require all war-active companies to report to the SEC within ten days after the close of the month in which a war contract has been terminated whenever (1) such cancellations amount to as much as 10% of total sales, and (2) the resultant loss in business won't be substantially offset by other war contracts. Additionally, companies would be required to file quarterly reports if more than 25% of sales in the preceding year was derived from war contracts. In either case, reports would have to be accompanied by data disclosing unfilled orders and new bookings. The new rules, if approved, will be welcomed by investors. It is difficult to see how they could possibly work to the detriment of corporations.

RECONVERSION PRICING . . . Fixing new price ceilings will be one of the most prolonged and painful operations of industrial reconversion. As far as the OPA is concerned, it will tax the ingenuity of that agency. For industry, it will be a major determinant of corporate profits during the reconversion period.

Official pricing policies have already been put on paper and submitted for the approval of the Economic Stabilizer's office but prospects are that the task of turning policies into actual practice will be somewhat trying. Some pricing puzzles still have officials baffled.

The task is rendered difficult by the necessity to estimate such imponderables as future materials and labor costs; price administrators say they cannot do a good job of setting ceilings until they have the answers to these and similar questions. Yet they know they will be asked to grant price rulings on thousands of products before the answers are on hand. Industries simply cannot supply the information at this time.

The job of setting price ceilings devides into four sub-problems covering four different situations: (1) Where items have been out of production generally during the war period. (2) Where production has continued throughout the war under ceiling prices. (3) Where new manufacturers are entering established fields. And (4), where a product or anything similar has never been made before. Problem 3, particularly, offers numerous difficulties because of wide variations in cost estimates by new producers.

The OPA is courageously tackling this herculean task which necessarily must involve a good deal of "guestimating" rather than estimating with subsequent demands for numerous revisions. To do a completely precise job on reconversion pricing, the agency says it would have to work "until the year 2000." Rather than that, we are sure, industry—and the OPA—will be satisfied with the best possible compromise.

SUING FOR STRIKE DAMAGE . . . Legal action seeking to establish mutual responsibility for labor unions and management under labor contracts has been initiated by employers in two cases arising from strikes. In one, the company charged violation of a no-strike clause in its contract with the union. In the other, a strike in violation of the War Labor Disputes Act is alleged.

A suit asking $259,680 from the United Textile Workers has been filed by American Enka Corporation, charging that an eleven-day strike in February caused that amount of actual damages. The company pointed out that the union's contract contained a no-strike clause. In a similar suit, the Teamsters Union was named defendant by the Wholesale Fresh Fruit & Vegetable Industry of Pittsburgh with $50,000 asked for damages caused by refusal of two teamsters locals to load and deliver goods in contravention of existing contracts.

It will be interesting to follow the fate of these court actions. If damages are caused by illegal strikes, there is no reason why unions should not be held strictly accountable. After all, unions are quick to insist on fullest observance of contract terms on the part of employers. The latter, in the interest of common justice, should be accorded the same right. We state this as a matter of principle, without any intention whatsoever to pre-judge the cases under discussion. It is up to the courts to decide whether the cause of the plaintiffs stands up under the law.

BASING POINT DECISIONS . . . In addition to the possibilities opened up by the first major cutbacks in war production, industry recently got something else to worry about. The U. S. Supreme Court in two unanimous decisions declared the use of basing point delivered prices illegal.

Basing point prices are now outlawed as discriminatory "where these methods of pricing fail to make due allowance in delivered prices for differentials in cost of delivery." This means that the court has ruled against "phantom" freight charges not on the "conspiracy" grounds which were formerly pressed by enforcement agencies but under the Robinson-Patman legislation.

While all basing point systems are not ruled out by these decisions, it is the thought in business quarters that selling practices in a good many industries may come in for considerable revision. Steel, cement, conduit, brick, lead, soil pipe and a number of other industries are involved in pending court and Federal Trade Commission actions upon similar grounds.

OPPORTUNITIES AND REALITIES . . . The Twentieth Century Fund in an interesting study estimates that opportunities for capital investments and outlays in the postwar era may average as high as $28 billion annually if all needs in this country for new capital equipment were met in the period between 1946 and 1960. Such outlays, added to accumulated demand for consumer goods and services, would be more than enough to absorb the nation's entire productive capacity and to keep our economic system operating at high levels, the study says. It is well, of course, to differentiate between opportunities and realities. The former undoubtedly exist but the latter, we are sorry to say, are bound to limit them to far more modest proportions.

As I See It!

BY CHARLES BENEDICT

THE SHAPE OF THE NEW WORLD

VICTORY in Europe! At last the Nazis have fallen and the opportunity to make a new and better world is here. God help us to do so!

Despite the differences arising at the Conference, everything points to a successful conclusion. Nations like men, have a way of taking each other's measure, and having arrived at a conclusion, transact affairs in the face of the knowledge gained. This is what has been happening at San Francisco. And now, after the opening skirmishes, the Big Three are facing each other realistically, although Russia remains the problem child.

While Russia is our valued Ally, with whom we have without stint cooperated to the full in this war against Hitlerism, between us lies a valley of fundamental differences regarding the way to permanent peace, including even the way of life.

Russia sees the peace structure exercising supreme power over other natons, even with Moscow as the eventual capital, — or at the very least, — the dominant force in a triumvirate, — for Russia believes in autocracy. Only by force of circumstance is she fighting on the side of the democracies. In fact, her government is much closer to rival fascism, than it is to democracy. There is the same lack of freedom for the people — the same police surveillance, with even more bureaucratic control of the means of production.

—"These dead . . . shall not have died in vain." © Punch

Because Russia is determined to maintain a totalitarian dictatorship, and fears the encroachment of Western democcracy on her political system, she approaches the peace with uncompromising cynicism, — and vociferously attacks any measure that is likely to interfere with her plans or her ambitions. For Russia sees in the great shifts taking place her opportunity to brilliantly realize century-old ambitions, and has already taken many steps in that direction, callously disregarding the interest of her allies.

Contrary to opinion in various quarters, there is no mystery about Russian intentions, — for her spokesmen have plainly stated her objectives, and her activities have followed the pattern closely. It is clear Rusia means to gain every point that is important to her plans, — and when she gives way, it is because she is always ready to take a step backward, — in order that later she may take two steps forward.

Although Molotoff fought for a different setup, at no time — up to now — was the Conference in danger, because Russia cannot afford to be isolated in the new world in the making. She needs peace, and she needs friends to help restore her devastated lands, and to alleviate in the interim the terrible suffering of her war-torn peoples. To this end Russia must make the compromise that will assure the peace, and also support a peace organization backed by all the nations of the world, instead of just the Big Three.

But because of what has already taken place, the pattern of the new world, rising out of the ashes of this war is not likely to shape up as originally contemplated. It was becoming clear, in the last days of the war in Europe, that rather it is likely to work out into spheres of influences divided among the great powers collaborating with the smaller nations. And maybe this is the best that can be had at the moment.

We can be certain that Russia will seek to dominate all the territory conquered right up to the Elbe. She is unlikely to recede from the stand which caused her in the first place to set up the various provisional governments in Moscow, and later to shut us out highhandedly after installing her puppet regimes in the wake of the Red Armies.

As a result of these activities, Russia has cleared the way right into Germany proper; which accounts for the determination to control Poland, despite the Yalta Agreement.

Russia does not want (*Please turn to page* 168)

What To Do In This Market

Partly in celebration of German defeat, but mainly on the post-war-prosperity theme, the averages have advanced further. The risk of a Government crack-down is increasing. So is the risk of a transition-period market slump. We advise careful selectivity, and maintenance of prudent cash reserves.

BY A. T. MILLER

VICTORY in Europe became a near-term certainty when the Rhine was crossed, and was so accepted by the stock market. As a direct market factor, the war was over before the mass surrenders of the pocketed Nazi armies began. The market is looking ahead — quite a distance ahead.

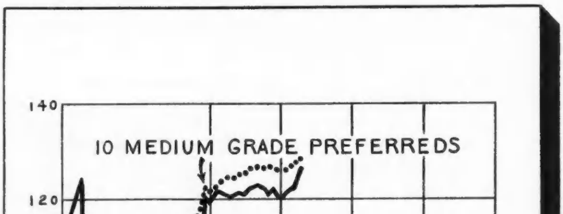
The prevailing sentiment is strongly bullish. Its foundation is not the present level of business, earnings and dividends. Rather, it is "post-war prosperity." This concept is necessarily vague in detail, though probably valid as a generality. For instance, nobody knows when the Japanese war will end, when and by how much corporate taxes will be reduced, how much of the "catching-up boom" in peacetime goods will be experienced while taxes are still high and price controls are still in effect. With respect to post-war international arrangements and relationships, there are many more blind spots than certainties.

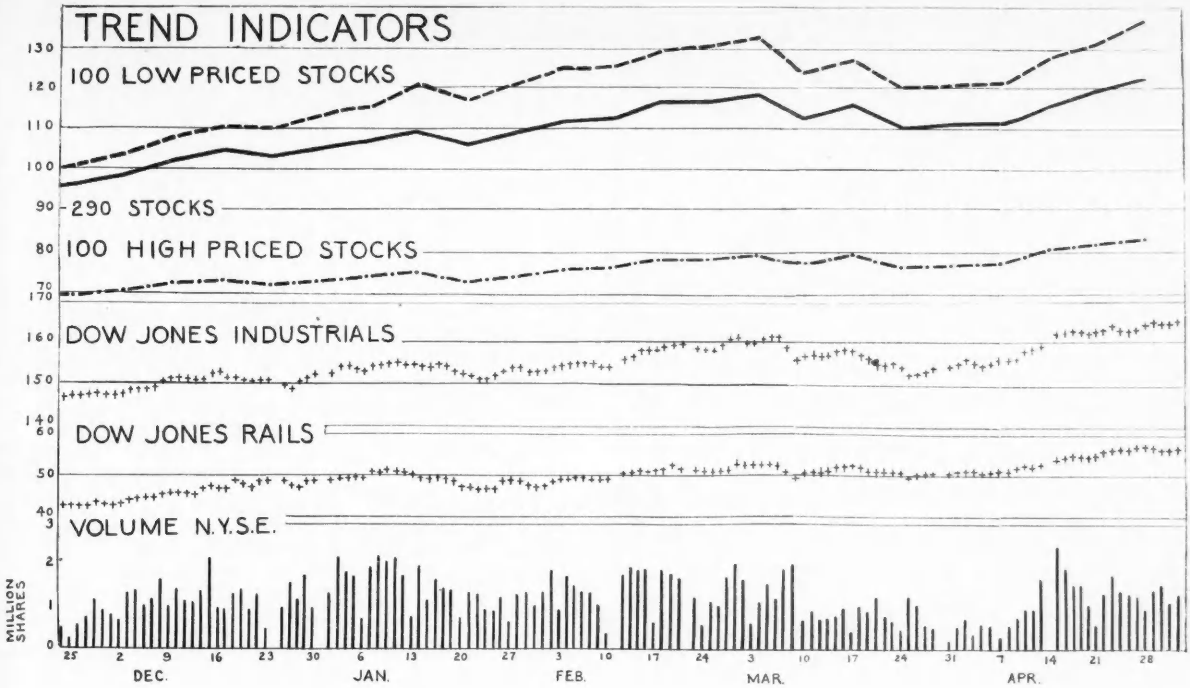
In other words, this bull market — now over three years old — continues to count its chickens, in high optimism, long before they are hatched. Reversing the old maxim, two of these assumed birds in the bush are worth more than one in hand. While it is true that all bull markets are in large degree "psychological," this one is so in abnormal extent — for not since the war began has there been any correlation between the trend of stock prices and the business cycle.

The peak of the war-time upswing in industrial production was passed by the end of 1943. It is absolutely certain — now that we are on a one-war basis — that by the end of this year production, national income and retail trade will have declined sharply from the current levels. It is certain that the defeat of Japan will be followed by further "transitional deflation" in employment, consumer income and business earnings — and this would be painfully severe if, as is possible, the Pacific War should terminate within, say, six to nine months.

We have said that the expected "post-war prosperity" is necessarily vague in detail. The same is true of the reconversion period, since nobody can forecast either how much or how rapidly economic activity will decline. Yet, now that the transitional adjustments have begun in production schedules and Government appropriations, the market continues to ignore the prospect of at least nine to twelve months of economic decline, and continues to discount with increasing liberalism the expected subsequent — and quite unmeasurable — "prosperity." Thus, a market commentator is not dealing today with facts and figures but, in uncommon degree, with a state of mind. That makes intelligently realistic discussion very difficult. The beautifully simple investment and speculative consensus that there are two birds in the bush has a great advantage. It cannot be proven or disproven on a factual plane.

Both in duration and percentage advance of the averages, the bull movement is undeniably well up in the "upper brackets." Only the bull markets which culminated, respectively, in 1929 and 1937 now outrank it. If prices continued to advance at the average pace of the past six weeks, the Dow industrial average would duplicate the 1937 high by the end of July; and the composite index of The Magazine of Wall Street, more inclusive of secondary and speculative stocks, would do so even sooner. It has long been "ahead" of the Dow average. Meanwhile, the price-earnings ratios attaching to some of the most popular speculations — for ex-





ample, among secondary automotive and building stocks — are more reminiscent of 1929 than of 1937.

It becomes increasingly likely that the major part — perhaps even all — of this "post-war prosperity bull market" will be seen during the war period, while the two birds remain in the bush. This brings us to two pertinent conjectures which prudent investors should not ignore. First, if there is a substantial extension of active advance this spring or summer, it might — and probably would — invite some kind of crack-down from the Government, notwithstanding the change in Administration; for we believe it most unlikely that the Truman Administration would put itself in the position of appearing, tacitly, to sponsor an exciting market spree while the nation is still at war and while the continuing policy clearly is, as it should be, to maintain price and wage stabilization so far as possible.

Second, assuming for the moment that this can be ignored and that there is to be an important phase of further advance over the next several months, that would very likely set the stage for either a reconversion-period bear market or a very deep and protracted intermediate reaction. Either way, we are convinced that undiscriminating stock buyers are assuming rather large, and increasing, risks at the present time.

We will go further. Whether the market is now near an intermediate top or whether it goes sharply higher before autumn, we believe it is probable that at some time within the transitional period the averages will be lower — possibly considerably so — than they are now. If this is correct, then, generally speaking, stocks would be a better sale than buy on further advance — though careful selection can still uncover individual values not unreasonably priced on longer-term probabilities.

When we express the opinion that the averages will be under present levels at some time within the transitional period, we are not talking "long-term" stuff. The transitional period has already begun. We will be deep into it before the end of this year. Many war plants are already laying off workers or reducing shifts and over-time hours. At a minimum, even assuming no greater cut-back than present conservative military planning is allowing for, the annual rate of national income by the close of this year will be not less than $30,000,000 under the current rate. It might be more than that, for in view of the absolute hopelessness of the Japanese position, the **possibility** of a surprisingly early end to that conflict can not be prudently put out of mind.

Since the deflationary aspects of the extensive reconversion phase have long been foreseeable, a valid question is: Has not the market made allowance for this and may it not be fully prepared, psychologically, to take the spectacle of declining production and employment with equanimity? We doubt it. This prospect, like the "post-war prosperity," has been vague in time and shadowy in detail — somewhat abstract, in short. But the deflationary facts will be specific and visible as they develop. Aggregate corporate earnings will decline and in some instances — for one, in the now favored automotive field — some dividends will be cut. In such an environment we think it much more likely that average stock prices would react than advance; and that the more they advance meanwhile, the sharper will be the reaction.

One can hopefully follow the crowd in a bull trend — now aided by rejoicing over victory in Europe — or one can demand sound values for investment funds. Especially at this late date, we advise the latter course. Careful selectivity, and the maintenance of a conservative cash reserve, are in order. — Monday, May 7.

OUR ECONOMIC POSITION UNDER POSTWAR RECIPROCAL TRADE AGREEMENTS

BY E. A. KRAUSS

ONCE again, we find ourselves in the midst of an intensive controversy over tariffs. In itself this is nothing unusual but merely a new dispute on a very old subject. But in contrast with former tug-of-wars, more than mere tariffs is involved this time.

Today it is not only a battle for tariff reductions or for the reciprocal trade idea but a battle for Bretton Woods and Dumbarton Oaks, a battle for the success of the world organization that is hoped will grow out of the San Francisco conference. It is also an inseparable part of the battle for full postwar employment, for we must match our need for full production with the world's need for our products in such a way as to reach and maintain over the years a permanently higher level of international trade, and to maintain it on a sound and profitable basis. And this cannot be done over high tariff walls.

That at least is what the Government and other proponents of lower tariffs contend, and the history of our tariff policy is all on their side. Today the tariff program is to become the keystone of our postwar foreign trade policy and mainly on this policy, it appears, rests the success or failure of any world plan to avoid issues — both economic and political — that in the past have so frequently poisoned international relations. Without question, the tariff reduction program is an integral part of the general international cooperation program; they go hand in hand.

The immediate object of heated debate is the Doughton Bill, now under heavy assault in Congress. The bill proposes two things: (1) It would extend the Trade Agreements Act, expiring June 12, 1945, for another three years. And (2) it would authorize tariff reductions up to 50% below the levels of January 1, 1945. The latter is the great bone of contention, hence for better understanding requires some explanation.

The Trade Agreements Act was first passed in 1934, more than a year after the Nazis under Hitler had embarked on their worldwide drive for barter trade, and when Britain was combating depression with the restrictive Empire Trade scheme. The Trade Agreements Act was designed by Cordell Hull to prove a doubting and upset world that this country was willing to make binding agreements to lower or freeze tariffs for a fixed period with any country willing to bargain along the same lines. The Act was thrice renewed, in 1937, 1940 and (for only two years) in 1943. It is now again up for extension.

The original Act provided the authority to cut existing tariffs, on a reciprocal basis, as much as 50%. In the eleven years it has been in effect, trade agreements have been concluded with 27 countries. Out of total tariff schedules of over 3,000 items, reductions have been made on 1,226. On some 523

of these, the full 50% cut originally allowed has been taken. But the average cut on the entire list of 1,226 items was only about 30%.

Demand in the new bill is that a fresh 50% tariff reduction be allowed, not on the 1934 basic rates (established in the Smoot-Hawley Tariff Act) but on the rates in operation on January 1, 1945. This means that on any item on which the original 50% cut was already taken, another similar reduction would be allowed, bringing the total slash since 1934 to 75%. This however could only apply to the aforementioned 523 items; it is a point frequently overlooked in the heat of debate.

Urging passage of the Doughton bill in one of his last messages to Congress, President Roosevelt — mindful of the heavy opposition the measure would encounter — declared openly that he considers the lowering of tariffs in the context of what he hoped will be an era of international cooperation. For that era, he stated, the U.S.A. needs a new "workable kit of tools" including the Bretton Woods agreements, lower tariffs and other international arrangements. Twice since his ascension to the presidency, President Truman has seconded this thought.

In asking for the new authority, Washington is obviously seeking fresh bargaining power for forthcoming trade conferences, especially for the World Economic Conference planned to be called within a year. But of perhaps more immediate importance, it must also be viewed as a means of implementing Bretton Woods and whatever economic arrangements will come out of San Francisco. In a very real sense, what Congress will do about the Doughton bill will have an important bearing on the success of the latter two agreements.

Commenting specifically on the trade bargaining aspect, President Roosevelt had stated that Britain and Canada still maintain certain barriers against our exports, just as we still have high barriers against theirs. Under the Act as it now stands, he said, we do not have enough to offer these countries to serve as a basis for further concessions we want from them. The same situation confronts us, although in a lesser degree, in the case of other countries with whom we have already made agreements. These include France, Sweden, Switzerland, the Netherlands, Belgium, Turkey and most of the American republics.

The Main Objective

Boiled down, the objective of the proposed legislation is extremely simple. First it is to assure a skeptical world that this country — now the world's most powerful political and economic unit — will take its full share of responsibility in avoiding postwar trade conflicts and in helping to rebuild world commerce. And secondly, the aim is to aid U. S. exports as job makers, by reversing the trend to closed economies.

Recognition of our position in the world makes it necessary that we reconsider many of the tariff policies in the past. We now hear a good deal about increasing our exports but not so much about the necessity of imports. But if we want to sell abroad, we also must buy abroad. If we want to stimulate exports to top $10 billion annually (a figure now frequently mentioned as a possibility), we must provide the world at large with the means to buy, either by accepting imports or granting loans and credits. Again, to service and repay the latter, the world can only offer us goods. In short unless we arrange in some way to obtain payment for our exports, we risk having to go through the same experience of another great series of defaults, a repetition of the bitter experience of unpaid debts, hard feelings between nations, paralyzed trade and unpredictable results beyond.

The Big Stake

Clearly, the Government has staked its foreign economic program on the ability to bring about greater tariff reductions; without action in the tariff field, Bretton Woods and other plans are regarded by many as meaningless. To make sense, they will have to be followed promptly by a series of economic pacts bold and broad enough to keep world business well above depression levels. Washington is acutely aware of this problem. And, we may rest assured, so is the world at large.

This explains the heavy official emphasis on favorable action on the Doughton bill. That bill, in the last analysis, will significantly determine this country's economic postwar policy and the strength of our bargaining power in important future international negotiations. It is one of the instruments which the Government requires to make effective its philosophy of cooperation in international affairs. It is needed to exercise the world leadership that falls to us by virtue of the strength of our new position. Failure to obtain that instrument, it is feared, would mean great difficulties in getting other nations to return to private trading and private enterprise in international trade. It would foster the trend toward closed economies and limit the flow of trade.

There is a familiar theory that a free flow of international commerce is the best preserver of peace. This view which underlies the original Trade Agreements Act, holds that trade barriers make for economic warfare, and economic warfare begets real warfare. But how far these arguments will go towards convincing Congress, and the numerous opponents of further tariff reductions, is another question.

After a decade of tariff bargaining, many in Congress remain unconvinced. The number of high-tariff advocates today is probably smaller than ever before; strong arguments in favor of lower tariffs unquestionably have left their imprint. But the opposing camp is still powerful and determined; so far every renewal of the Trade Agreements Act was accompanied by intense controversy with the high tariff group receiving support from many congressional members who feel that local industries in their districts have been hurt by tariff reductions, regardless of the effect of the agreements as a whole.

The deeper rate cuts and broader powers requested in the Doughton bill are bound to intensify that opposition and raise the demand that any new trade agreements be submitted for congressional approval. Spearheading the opposition drive is the American Tariff League which takes the standpoint

that if the United States is to hold the position of constructive leadership among nations after the war, it must retain a strong internal economy. Such an economy, the League avers, cannot be assured if the American producer loses the American market by opening the door to a flood of imports. Rather, it would tend to lower living standards at home.

The Opposition Argument

This argument is supported by groups of manufacturers and workers whose investment and jobs, they feel, are threatened by cheap foreign imports. American labor, they say, would have to compete with cheap foreign labor, and American business would face ruin. The ranks of the opposition are joined by farm groups who recently told Congress that the reciprocal trade program has been injurious to American agriculture. They think the program so far has only benefitted big industry, and demand that no trade agreements should be made that would allow entry of any foreign farm products at less than U. S. parity price.

The gamut of pros and cons is almost endless. Opponents of lower tariffs stress that war has taken U. S. production skill and methods to foreign factories, hence protective tariffs are doubly needed to equalize foreign and domestic working standards. That lower rates would only scrap vulnerable industries such as textiles where, contrary for instance to the automobile industry, product variety lifts unit costs. That lower rates are only a short-lived bracer whereas healthy trade should be whetted by need and desire. That, anyhow, two-thirds of our normal imports are already coming in duty free. That it would be foolhardy to make "sacrificial goats" of *any* American industries that can contribute its share to full postwar employment.

Advocates of further tariff reductions, on the other hand, emphasize that to double exports and raise living standards, we must import; that only in helping other nations recover prosperity through trade will the U. S. find lasting economic security. They maintain that with their high efficiency and low unit costs, our industries have nothing to fear from foreign competition, that any shrinkage of domestic markets due to imports would be more than compensated for by greater export potentials which would inevitably accrue from prosperity abroad. That failure to lower tariffs now would mean that countries wavering between state trading and private enterprise would almost surely retain the former method, possibly return to barter and programs of self-sufficiency which would automatically curtail the flow of international commerce. That anyhow, lowering tariffs would not mean a horizontal percentage reduction or advocacy of free trade but merely *freer* trade brought about by judicious and reciprocal tariff action. In other words, a multilateral rather than a one-sided lowering of trade barriers.

They point to past achievements under reciprocal trade agreements. The record shows that between 1934-35 and 1938-39, our exports to trade agreement countries increased by 63% while our shipments to non-agreement countries rose only 32%. Between these same periods, our imports from agreement countries increased by 22% as compared with only 12% from non-agreement countries. In short, they cite the record to show that trade agreements build trade, and maintain that they will do so after the war just as they did before.

Balancing the pros and cons, it must be stated that there can of course be no such thing as a strictly scientific tariff, or one which does not leave some particular interests unsatisfied. The question hence must be approached from the standpoint of national interest. Tariff concessions may have to be traded for concessions by other parties that are of primary concern to us as a nation — sometimes for political as well as economic reasons. The latter aspect today looms particularly large.

But the fact remains that we do need increased bargaining power in the period ahead. Simply renewing the Trade Agreements Act without vesting it with the increased authority would mean in effect that no important trade agreements of substantial benefit to this country could be negotiated with those foreign countries which are the principal outlets for American goods, especially Britain and Canada, our best pre-war customers.

A few figures will illustrate this point. The authority under the present Act to reduce duties by not more than 50% of 1934 rates has been fully exhausted in respect to 42% of our total dutiable imports from all countries on basis of 1939 import values. The authority has been partially exhausted, and in many cases almost fully exhausted, in respect to an additional 20%. Of the authority which has not been used at all — which applies to 37% of our total dutiable imports, — a considerable part relates to goods formerly supplied by Axis countries.

As to Britain and Canada, the duties under the present Act have been reduced on about 90% and 92%, respectively, of our total dutiable imports from these countries in (*Please turn to page* 164)

25 Best Customers of the United States Calendar Year 1941

($ millions)

	Country	% of total	Value
1.	United Kingdom	31.8	$1,637
2.	Canada	19.3	994
3.	Egypt	4.9	250
4.	South Africa	3.6	187
5.	Mexico	3.1	159
6.	Brazil	2.9	148
7.	Cuba	2.4	126
8.	Netherlands Indies	2.4	124
9.	Argentina	2.1	109
10.	Philippines	2.1	109
11.	USSR	2.1	108
12.	British India	1.9	98
13.	China	1.9	95
14.	Australia	1.8	91
15.	Panama Canadal Zone	1.4	72
16.	Venezuela	1.3	68
17.	Colombia	1.3	66
18.	Japan	1.2	60
19.	Chile	1.1	57
20.	Brit. Malaya	0.9	46
21.	Panama	0.7	35
22.	Peru	0.6	32
23.	New Zealand	0.6	31
24.	Hong Kong	0.6	30
25.	Sweden	0.4	22

Source: Dept. of Commerce.

Companies with Strong Reserves --Enhancing Postwar Potentials

BY WARD GATES

WAR-ACTIVE corporations, looking forward to the turmoil of the transition period, to the possible or probable interruption in the flow of cash receipts and to the likelihood of heavy reconversion expenditures, have taken numerous steps to meet these contingencies.

By and large, these preparations consisted either of measures undertaken to acquire beforehand such cash resources as may be needed for reconversion, or of measures designed to ensure that cash resources will be available when required. Some of the latter, such as the negotiation of a stand-by credit with banks, are strictly financial. Others, not so narrowly financial in character, have nevertheless often intimately affected a company's balance sheet or income statement.

Most common in the latter category has been war-time reduction of long-term debt and retention of a substantial part of earnings. In the latter respect, more particularly, creation of liberal postwar or contingency reserves has been an outstanding feature of wartime corporate financial practice. Contrary to general prewar custom, such reserves in the overwhelming majority of instances have been set aside from earnings rather than from surplus. The phrase "provision for contingencies" has become a commonplace in war-time income statements with the result that the attendant understatement of earnings was frequently quite marked.

How Reserves Expanded Among 120 Manufacturing Companies

($ millions)

	1940	1941	1942	1943	1944	% Change 1940-44
Reserves	96	113	143	181	198	+106%
Total Assets	3,174	3,684	4,240	4,518	4,600	+45%
Working Capital	1,296	1,419	1,578	1,721	1,796	+39%
Current Ratio	4.48	2.98	2.41	2.38	2.40	

The idea suggests itself that where reserve policy has been ultra-conservative, the stockholder stands to benefit doubly; he may have swapped an immediate reward for a later advantage that may well accrue to him in more impressive fashion. Immunity against reconversion losses, insofar as they can be charged against reserves instead of earnings, should assure continuity of dividends when the transitional sledding is hard. The resultant overstatement of earnings may well find expression in the market price of the equity. Moreover, where reserves are in excess of probable needs, there is always the chance of a later distribution, perhaps under tax conditions more favorable than today's. The tax factor probably had much to do with reconciling the average stockholder with his company's liberal reserve policy; many equity holders, especially those in the higher income brackets, must have welcomed an opportunity to defer immediate advantages in the form of higher dividends.

This does not mean that tax considerations were all-important in shaping corporate reserve policies. From the company's standpoint, it often made no difference whatsoever since special reserves were not tax-deductible. Rather, the outstanding motive was desire of greatest possible immunity against the financial vagaries of reconversion and transition. To gain that immunity, wholly or in part, American industry over the last four years has created special non-tax-deductible postwar reserves totalling something like $3 billion, charged off as expenses before profits.

Retained Earnings

This sum, of course, represents only part of retained earnings. Throughout the war period, corporations have been quite circumspect in their dividend policies. They distributed less than half their profits before reserves. This conservative procedure left them with no less than $18 billion of retained earnings for the years 1940-44. Of this amount, about $15 billion were carried over to surplus, the remainder of three billion was set aside as reserves. This does not take into account depreciation charges of about $23 billion; together with the aforementioned retained earnings, this would raise to some $41 billion the amount that corporations have set aside. Against this total, only about $26 billion were spent on plant and equipment.

To all intents and purposes, then, American industry enters the transition period quite well heeled with liquid resources. In many instances, contingency reserves should be more than adequate to meet any foreseeable reconversion expenses. Just how such postwar reserves have risen is illustrated in the appended table. Based on a composite balance sheet of 120 manufacturers, each with sales or total assets of over $5 million, it shows that reserves mounted from $96 million in 1940 to some $198 million at the end of 1944, or an increase of 106%. Total assets over the same period, rose only 45%, working capital about 39%. In relation to total assets, reserves at the end of 1944 constituted about 4.3% compared with 3% in 1940.

In individual cases, of course, the showing is often widely divergent as can readily be seen by consulting the second table listing 1940 and 1944 figures of reserves of representative companies in various industries.

Sizable reserves have been created by aircraft manufacturers, for obvious reasons, as they face

perhaps the greatest transitional and postwar uncertainties. Take Lockheed Aircraft, for instance, whose contingency and postwar reserves at the end of 1944 stood at some $16 million against no reserves at all in 1940. They amount to about 8.7% of total assets — and thus are just about twice as high, percentagewise, as the composite showing mentioned above.

The postwar reserves of Douglas Aircraft of $16.5 million represent 11.7% of total assets. Even so, this accumulation is equivalent to only about 1% of current backlog and, according to the company, sufficient for only about one week's costs. As in the case of virtually every aircraft manufacturer, the adequacy of reserves will be largely determined by tax provisions, particularly as regards the effectiveness of the carry-back provisions.

Position of the Aircraft Industry

Bendix Aviation, facing a considerable readjustment program, has postwar reserves of $21 million or about 6% of total assets. In 1940, reserves amounted to less than $1 million. These reserves are probably fully needed to bolster working capital which though at record high of $51 million is equivalent to only three months' payroll. The company is building up reserves at the rate of about $5 million a year. Obviously, substantial reserves are necessary to carry it through the period of large-scale contract termination.

The same applies to the entire aircraft industry, despite the steady improvement in its financial position. In 1944 alone, seventeen major aircraft manufacturers set aside $53 million in adjustment and contingency reserves against $27 million the year before, despite slightly lower earnings. Total reserves for these seventeen companies now amount to $175 million and are proportionately far greater than for any other industry branch. However, industry spokesmen point out that it will be a huge task to shrink the nation's largest war-time industry back to peace-time proportions. Despite marked enhancement of the industry's financial status in the last two years, there is still concern lest available resources including reserves prove inadequate for a protracted reconversion period.

In contrast, the automotive industry finds itself in a more comfortable position, despite its huge war role that at times tended to strain resources considerably. Chrysler for instance since 1940 expanded its special reserves more than five-fold to over $43 million or about 8% of total assets. Of this total, $40 million have been set aside for plant rehabilitation, general reconversion and re-establishment of the automobile business. This provision in itself bespeaks the very substantial reconversion problem of the company but it has an exceptionally strong and liquid working capital position with net current assets of over $192 million. Still, the reserves are likely to be fully needed for the transition task ahead.

Special reserves of General Motors rose from $61 million in 1940 to over $101 million in 1944, amounting to about 5% of total assets at the latter date. The sum carried for postwar contingencies and rehabilitation is $76.05 million. Here, too, the reserve account must be judged in connection with the company's excellent working capital position, showing net current assets of some $903 million and with enough cash and marketable securities to cover approximately two-thirds of current liabilities. Significantly, the 1944 income statement omitted further provision for postwar contingencies and rehabilitation; in 1943, some $35 million were charged against earnings for this purpose. Under the circumstances, it seems a permissible conclusion that reserves now are regarded adequate for reconversion though expansion plans may call for additional funds. But that is a different story.

Both Packard and Studebaker have set up sizable reserves for reconversion; so has Nash-Kelvinator though in the latter's case, the increase since 1940 has been minimal whereas the former two, starting from scratch, made relatively far greater provisions. Presumably, reserve policy in each case is however geared to prospective needs and there is reason to believe that purly reconversion outlays are adequately covered by existing reserves, given prompt and smooth contract termination. Studebaker's problem is reported to be relatively minor and that of Nash-Kelvinator is not too serious since the company's extensive war contract work is essentially carried on in Government-owned plants. The main reconversion task thus probably consists of retooling and strengthening dealer organizations.

In the chemical industry, reconversion problems are relatively minor thus the need for special reserves has been far less pressing than in most war-active industries. This is reflected in most reserve accounts which have remained fairly moderate. DuPont stands out with $32.60 million, about double the 1940 figure and probably more than adequate to cover reconversion contingencies. The company is well known for its conservative accounting practice.

In the electrical industry, we find that General Electric has a relatively small postwar reserve, amounting to about $15 million. The special reserve was created in 1942 and in this and the subsequent year, $17 and $18.5 million respectively were added by appropriations from income but subsequent charges covering renegotiation adjustments for these years reduced the amount to some $7.87 million by the end of 1943. An additional $7.87 million was set aside from 1944 income, raising this special reserve once more to $15 million. Presumably, the amount is fully adequate for the purposes intended. Far more impressive is the company's excellent working capital position, with cash and securities practically covering all of current liabilities. In addition to the postwar reserve, General Electric has sizable general and miscellaneous reserves, totalling over $57 million.

Westinghouse Electric

Equally well provided is Westinghouse Electric & Manufacturing Co. with total reserves of $46.72 million amounting to about 9% of total assets. $18.94 million have been set aside for postwar contingencies, $14.60 for "other contingencies" while $13.17 million are general operating reserves. Total reserves since 1940 increased almost nine-fold.

Well fortified with reserves is International Harvester Company, with total reserves of $92 million

and special reserves of some $77 million. Of the latter, $30 million are for postwar rehabilitation and contingencies, $25 million are inventory reserve and $22.11 million are reserves against losses on foreign investments. Altogether, these special reserves amount to nearly 14% of total assets. The strictly postwar reserve in 1944 was increased by $10 million not by charges against income but, exceptionally, by transfer from surplus; the total of $30 million should be fully adequate for the purpose intended. The company's working capital position, incidentally is exceptionally strong and liquid with cash and securities holdings alone almost twice the amount of current liabilities. Current ratio is better than four to one.

Machinery, Steel

We find, by consulting the table, that the creation of special postwar reserves in the machinery industry was relatively modest in most cases, contrary perhaps to popular expectations. But this is quite natural considering the fact that the reconversion problem of most machinery concerns should be relatively small; there is not much difference between war and peace output of machine builders. Exceptions are those who participated materially in direct munitions production such as Fairbanks Morse, Worthington Pump and Ingersoll Rand; special reserves in these instances are therefore larger, proportionately, than with other machinery concerns.

The reserve policy of the steel industry has always constituted an interesting chapter, in wartime no less than in peace years. In the case of U. S. Steel we find that special reserves since 1940 have increased from about $39 million to over $125 million, the latter being made up of $95 million set aside for "estimated additional costs arising out of war" and of $30 million for contingencies. In the steel industry of course, there is no genuine reconversion problem since there is no absolute difference between war and peace production. In either case it is steel in its many forms. Yet return to peace production is bound to entail considerable shifting of facilities to meet changed requirements. To defray such expenses, U. S. Steel last year, as in the three previous years, charged $25 million against earnings. It is difficult to say how much of this will actually have to be expended for the purpose indicated. In the opinion of most observers, the amount appears extremely liberal just as U. S. Steel's policy has always been known to be very liberal. This annual deduction of $25 million amounts to nearly $3 per share, and the total reserve so created to nearly $12 per share of common. It is a typical case where strong reserves no doubt enhance postwar potentials, not only of the company but the stockholders as well.

Bethlehem Steel increased its contingent reserve since 1940 practically ten-fold, from $3.56 million to $36.09 million; last year alone $8 million was added from income. Bethlehem, owing to its extensive shipbuilding operations, faces a real adjustment problem but reserves no doubt are adequate to meet any extraordinary outlays arising therefrom. Depreciation policies of most steel companies, incidentally, have likewise been quite liberal with U. S. Steel and Bethlehem leading the field.

There has been a material strengthening of special reserves of the Tire & Rubber companies. A case in point is Goodyear whose contingent and miscellaneous reserve account rose from $1.51 million in 1940 to nearly $20 in 1944 with $5 million added in the latter year alone. Curiously enough, the company has no inventory reserve; under today's conditions it doesn't need any, for there are no price fluctuations in *(Please turn to page 163)*

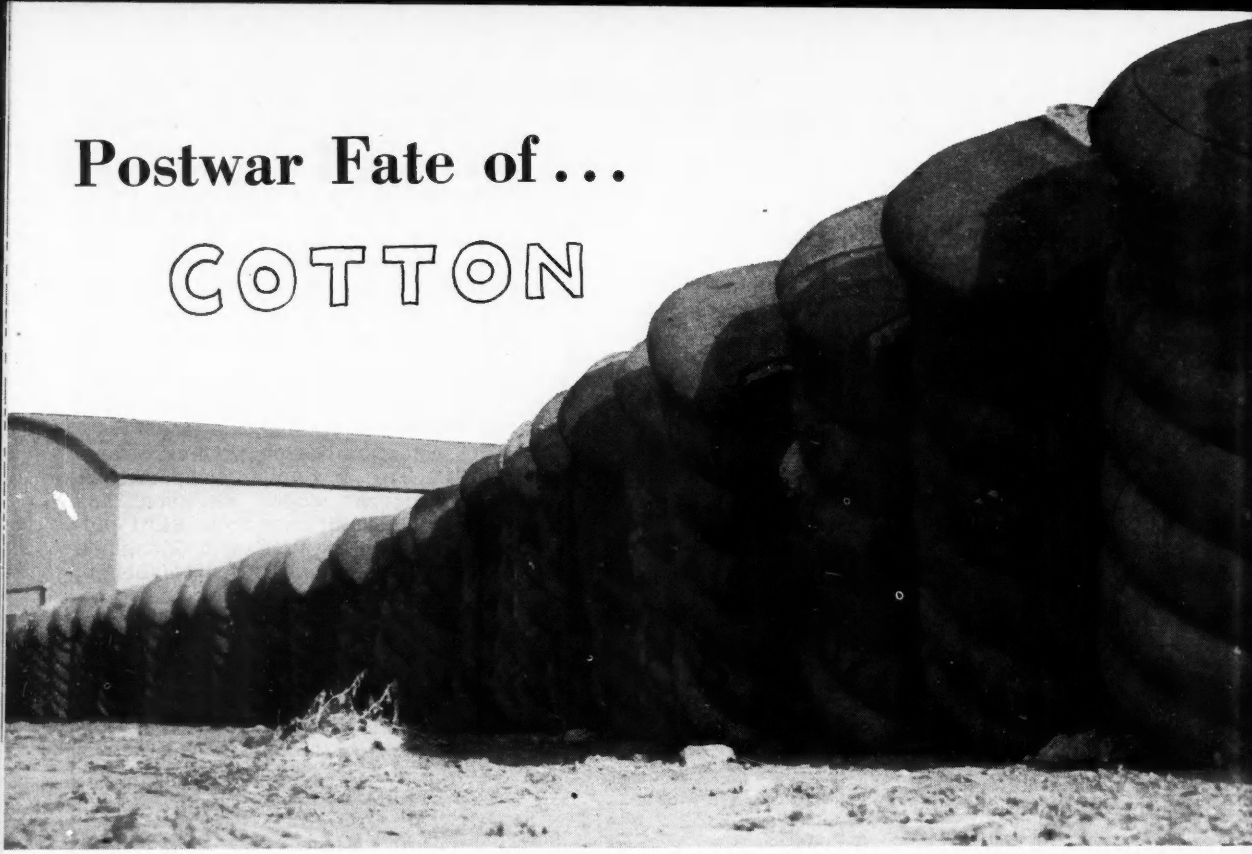
Postwar Reserves of Leading Corporations
($ millions)

	1940	1944
AIRPLANE MFRS.		
Boeing	——	12.248*
Consol. Vultee	0.708(c)	19.600
Curtiss Wright	——	24.311*
Douglas Aircraft	0.450	16.540
Lockheed	——	16.554
Martin, Glenn L.	——	24.500
United Aircraft	0.048	——
AUTOMOTIVE		
Bendix Aviation	0.765	21.000
Borg Warner	1.761	8.620
Chrysler	8.120	43.333
Eaton Mfg.	0.112	1.466
General Motors	61.406	101.683
Motor Products	0.382	0.800
Nash Kelvinator	3.868	4.293
Packard	1.250	4.000
Studebaker	——	3.500
Thompson Products	——	1.605
CHEMICALS		
Air Reduction	2.653	1.600
Atlas Powder	0.050	0.709
Dow Chemical	0.346	1.808
DuPont	16.878	32.605
Hercules Powder	——	2.486
Monsanto Chemical	——	——
ELECTRIC EQUIP.		
General Electric	——	15.000
Philco	——	0.779*
Radio Corp. of Amer.	8.114	13.430
Westinghouse Elec.	5.258	46.725
MACHINERY MFRS.		
Blaw Knox	0.200	1.967
Bullard Co.	——	1.230
Ex-Cello	——	0.900
Fairbanks, Morse	0.315	6.450
Ingersoll Rand	——	2.500
Worthington Pump	——	3.014
FARM MACH'Y		
Allis Chalmers	2.000	8.150**
Case J. I.	0.500	6.300
Int'l Harvester	54.669(a)	77.111(d)
OFFICE EQUIP.		
Int'l Bus. Machines	5.801	8.000
Nat'l Cash Register	1.667	4.337
Remington Rand	0.729	2.830
RAILWAY EQUIP.		
Amer. Car & Foundry	1.900	5.900
Amer. Locomotive	1.872	8.000
Baldwin Locomotive	1.931	1.067
STEEL PROD.		
Bethlehem Steel	3.567	36.099
National Steel	3.600	10.642
Republic Steel	18.268	11.866
U. S. Steel	39.247	125.685
TIRE AND RUBBER		
Firestone	2.500	18.380
Goodrich	——	9.663
Goodyear	1.519	19.964
U. S. Rubber	3.608	5.917
TOBACCO PROD.		
Amer. Tobacco	——	——
Ligget & Myers	2.715	1.383
Reynolds Tobacco	——	——
RETAIL DISTRIB.		
Gimbel	——	1.500*
Macy	——	3.700
Montgomery Ward	——	16.000**
Sears Roebuck	3.290	28.500
Woolworth	——	——
MEAT PACKING		
Armour	3.000	4.000
Swift & Co.	18.322(b)	24.767(b)

*—1943. **—Inventory Reserve. (a)—Includes $22.0 mill. inventory reserve. (b)—Includes $5.7 mill. inventory reserve. c)—Reserves of Consol. Aircraft; Vultee Aircraft carried no reserves. (d)—Includes $25.0 mill. inventory reserves.

Postwar Fate of...

COTTON



Frederick Lewis Photo

BY H. M. TREMAINE

ONCE more, the cotton problem is up for "treatment." But this time, if the steadily mounting number of realists has their way, the treatment may well be surgical rather than mainly palliative as in the past. Far from having improved, the cotton problem has further deteriorated during wartime. Bluntly, the future of cotton is shaky and the time to do something about it is now. In facts and figures, here is the reason why.

While war needs have brought about shortages in most commodities, cotton was not one of them. Instead, cotton has continued to pile up. If cotton textiles today are short, it is not for lack of raw cotton but due to scarcity of labor in textile mills. Under the spur of war demand, domestic consumption has risen to about ten million bales annually but consumption outside of the United States has declined over 35% and the carry-over in foreign lands has almost doubled, totalling now over 15 million bales. This huge foreign surplus, on top of a twelve million bale domestic carry-over, complicates the postwar outlook for cotton beyond the limits of any prewar "cotton problem." The world carry-over now stands at over 26 million bales with most of the foreign surplus in the hands of producing nations anxious to sell.

The situation is such as to raise the prospect of postwar world cotton prices far below those in this country (if we continue to protect the domestic price) and of very heavy cost if our Government undertakes to subsidize exports at anything like the pre-1939 level. Since the problem is international, any approach to a solution must be on an international plane. This is now being attempted by the International Cotton Advisory Committee embracing representatives of virtually all cotton growing countries. The group faces one of the world's toughest surplus commodity problems.

The Committee is prepared to report that notwithstanding greatly increased consumption in producing countries, some twenty million bales of cotton will be available for export in the current year. Against this, the quantity which could actually be absorbed is estimated at ten million bales at the most, and might fall below five million. While final agreement has not yet been reached on the feasible export figure, a disparity of at least ten million bales between export needs and export surplus is indicated. The outlook is somber enough for virtually all producing countries. To avoid disastrous postwar price competition in the world markets, to forestall cut-throat dumping of surpluses, the Committee has the difficult job of finding a formula, agreeable to all, that would permit orderly marketing under an international cotton agreement.

The domestic cotton problem, as we all know, is a hardy perennial, shot through with regional and political considerations which so far have precluded any "surgical" approach to a solution, or even its modification. In the past, attempts to solve it have been through unilateral national action, through programs that have acted as a buffer to prevent collapse of the Southern cotton economy but also tended to aggravate international aspects. Over the last dozen years, we have attempted to curtail unwieldy surpluses by acreage reduction of nearly 50%

without, however, materially lowering output because price protection has stimulated more efficient growing. We have granted loans to domestic growers above the world price. But withal, we managed to raise the world price but slightly. Exports continued on the skids and to halt the decline, we introduced costly export subsidies with indifferent results. Our exports from a peak of over nine million bales slumped to barely half that much in 1938. Our share in supplying the world with cotton dropped from 43% in the 1920-24 period to 24.5% in the years 1935-39.

Former Measures Ineffective

It is no coincidence that our exports went into a tailspin while foreign production shot upward during the period when we were curtailing acreage and supporting prices. These measures played directly into the hands of our competitors, enabling them to wrest from us a sizable chunk of our foreign market. Brazil, Peru, Egypt and India gained at the expense of our cotton growing South or more correctly, at the expense of the American taxpayer who ultimately had to meet the cost of stabilizing domestic prices and subsidizing our dwindling shipments abroad. While we held an umbrella over our competitors, they expanded their own production and exports. Even today, in war-time, our cotton exports are subsidized to meet foreign competition.

Our domestic surplus in recent years has habitually equalled roughly one year's production; the problem is how to work off the existing excess so as not to enlarge the latter to totally unmanageable proportions. Unilateral action, as the past has proved, cannot do it without rendering the basic problem correspondingly more serious. Instead, international cooperative action is called for, entailing an attempt to affect the world price and production of cotton through a multilateral convention. But associated with such international action must be national and state action to assist the high-cost cotton producing areas in adjusting their agriculture to achieve diversification and reduce permanently the cotton acreage. These are longer range objectives but no less desirable than immediate market stabilization. Without the former, the latter would be short-lived at best.

The over-all remedy is believed to lie in lower costs of production at home, coupled with rising wages and living standards abroad, in turn permitting larger world consumption of cotton. As far as American cotton growing is concerned, more economical production is widely held as a prime requisite to any measures looking towards a sounder basis. It is closely tied up with cotton's long-term future, shaped as it is by growing mechanization of the productive process. The belief is widespread that the use of machines eventually will make for concentration of most production in the Mississippi Delta region and the Western plains, leading to substantial cost reduction unless the trend is artificially restrained. From the standpoint of the welfare of consumers and the retention of our export position, eliminating high-cost production and expanding low-cost production would be eminently desirable. But it would have serious repercussions on cotton production areas with a dense farm population, and strong political pressure will almost surely prevent such a solution unless alternative uses for the land and occupations for the people can be developed to provide an alternative means of making a living.

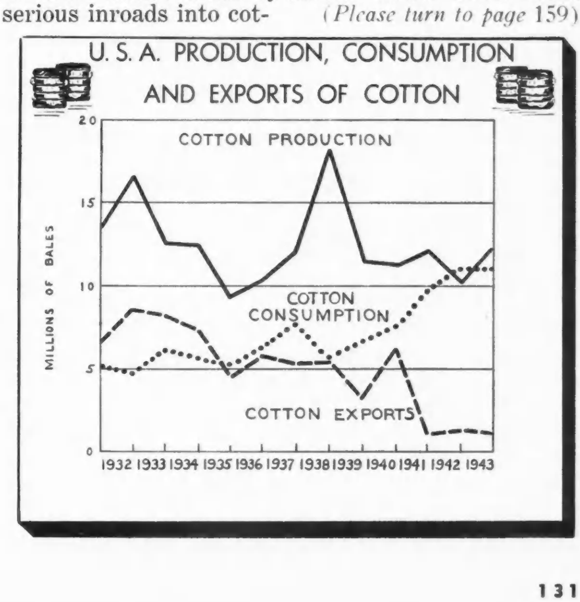
The idea, despite its complexities, seems to have taken hold in official thinking; this augurs well for an ultimate realistic approach to a long-range solution. The latest official view as represented by a recent declaration of Secretary of Agriculture Wickard before the House Agricultural Sub-Committee On Postwar Planning is revealing. May it be added that, incidentally, it fairly jolted that body.

Stressing the doubtful prospect of marketing satisfactorily our cotton production, and branding price supports as nothing more than temporary expedients, Secretary Wickard — foreseeing a revolution in cotton due to growing mechanization — outlined a sweeping plan for the Cotton Belt. His ideas were seconded by Oscar Johnson, a powerful force in farm circles as head of the National Cotton Council.

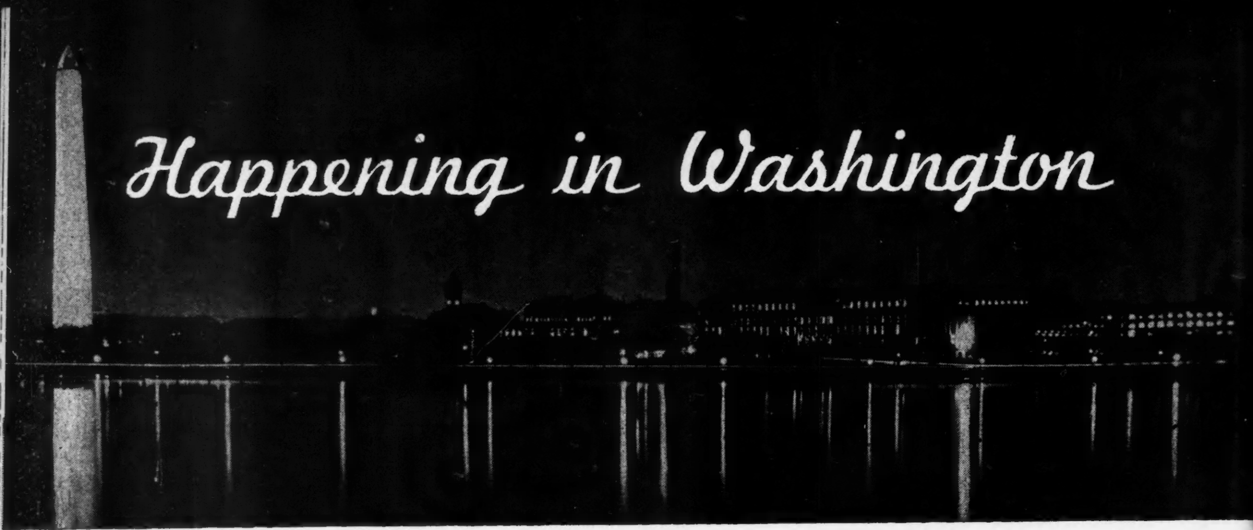
In its barest essentials, Secretary Wickard's plan calls for progressive industrialization of the South and a shifting of the less fertile and hilly areas (not suited to mechanized production) from cotton into other agricultural products. The latter, he felt, might find a ready market in the new industrial areas envisaged. Since execution of the plan would be accompanied by severe transitional problems, the Secretary suggested a "cushion" in the form of Government subsidies for a stated period and on a declining scale to finance farmers during the change-over.

It is a radical solution, and would probably be an expensive one though no more so than current and past expenditures to stabilize the cotton situation. But it has one great advantage: The solution would be permanent, and expenditures eventually would cease rather than go on indefinitely.

Secretary Wickard in his testimony gave full recognition to the necessity for lower priced cotton than was ever before found profitable to produce, to meet competition not only abroad but at home as well where rival synthetic fibers have made serious inroads into cot- (*Please turn to page 159*)



Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

WAR HOUSING is slowly falling into the classification of surplus but the dwelling units, with few exceptions, will not become the property of their present tenants. Only large-scale operations are feasible. The Federal Housing Administration prefers to do business with investors. Occupant-cooperatives have taken over several projects built on the slum-clearance, low-rent basis, but their operations have not been signally satisfactory.

> ***Washington Sees:***
>
> Elevation of Harry S. Truman to the Presidency has ushered in a new era of good feeling between the White House and Capitol Hill, ending the tug-of-war which existed for the past dozen years and installing new personalities and government ideologies which clash to an extent but can be counted upon to get together over the long haul.
>
> President Roosevelt had never served in Congress, was jealous of the Executive's prerogatives. President Truman is congress-minded—the first head of the government in a quarter of a century who had national legislative experience. His predecessor had distrust which he made no attempt to conceal in his dealings with the makers of federal laws; Herbert Hoover was by nature, and some degree of background, a bureaucrat; Calvin Coolidge viewed Congress in a detached way, in a day of prosperity which afforded little basis for quarreling between the two divisions of government.
>
> It cannot be suggested that President Truman can wholly reconcile such irreconcilables in his own party as Senator Wagner, who was author of the progressive labor laws of the past decade, and Rep. Smith who has devoted a major part of his energy to seeking to bring about repeal of the Wagner Acts. But it is in the zone of in-between attitudes that the President will find his strength and influence.
>
> Not since the short-lived administration of Warren Harding has there been the prospect of team-work that exists today. With a peace treaty in the offing, that augurs well.

TREND toward reducing the functions of Cabinet offices of the government which began with removal of lending functions from the Department of Commerce next will take the Rural Electrification Administration away from the Department of Agriculture and set it up as an independent agency. But the policy will be reversed in the Department of Labor, which will acquire the National Labor Relations Board — when Secretary Perkins leaves.

SAN FRANCISCO is charting the battle-ground for the Senate when peace treaties ultimately are submitted. Hopes that Yalta, Teheran and other international parleys had smoothed the way for agreement on major issues, and for submission to UNCIO and acceptance of majority rulings on other questions, have evaporated. Concession to Russia, or compromise with the Soviets, are the alternatives; but the Senate does not intend to have its discussions foreclosed by what happens on the West Coast. Nor is there any reason to believe that Russia will be contented, will follow through.

CONGRESS will relent on its refusal to appropriate 13 million dollars to gather statistics essential to orderly conversion of industry. Basic information on consumer income, expenditures and savings, estimated 1945 population, data on employment, without which planning cannot proceed on a scientific plane, is involved. The funds were denied because the idea was thought to be another bureaucratic notion. But the appropriation will be made because business leaders have pointed out to Congress the folly of its action.

DEFEAT of Japan can be accomplished by the forces of the United States alone, the high command believes, but participation by Russia and Britain would be welcomed. Whether the other Allies pitch in will determine the time of final victory: 1945 if they go all-out, 1946 if they do not.

AS WE GO TO PRESS

Current discussions in Washington will go far to determine worldwide distribution of five basic food commodities -- sugar, fats and oils, meats, rice, and canned fish. British and Canadian missions are closeted with representatives of agencies in charge of feeding and relief.

Not only policy but also specific allocations in terms of poundage are being written. They affect not only liberated areas but likewise civilian populations of the United Nations.

Conversations are carried on against backdrop of confusion on Capitol Hill and in the food agencies. "Solutions" to the meat problem are numerous, but opinion divides on workability of any of them.

Net product of the diplomatic and legislative security is this: there just isn't enough food to go around, which means basic items will be tighter during the next 12 months than at any other time in the war. Beef should be somewhat more plentiful by mid-July, the pork shortage will not improve for eight months

Sugar is a typical item: excluding Japanese-held territory and Germany, world needs for 1945 will be 25 million tons. Available supply, including stocks on hand, total 23 million tons.

Office of War Information, costly and often confusing war-born branch of the government, is on the way out. Clearing house of official press releases it moved so slowly as to encourage rumors upon which business and industry often relied to their disadvantage and monetary loss. Official news frequently scotched "well-founded reports."

First contraction of OWI already has taken place in liberated countries. The name "United States Information Service" has been adopted for psychological reasons. The word "war" didn't set well. Archibald Mac Leish will move in to take over OWI functions, gradually, not with a fell swoop.

Lack of settled policy on post-war sale of surplus merchant ships is encouraging plans and steps to promote growth of shipbuilding abroad. The Maritime Commission has urged Congress to act -- now.

Ready market awaits surplus vessels, but the problem is not simply one of merchandising. It is tied in with world shipping agreements, even world peace. And national policy is fundamental in a situation which finds U. S. merchant shipping with six times the tonnage it held in 1941, 57 per cent of the Allied tonnage now against 17 per cent in 1939.

Congress must decide to what extent operating subsidies will exist after the war. On that decision may turn the question how many merchant ships will continue under American registry.

Navy Department is courting favor for a big peacetime fleet. Newspaper editors are being taken into the Pacific theatre of action for first-hand view and to gain impressions to be used in moulding public opinion.

Not a single junket, but a series to continue until Japan is eliminated, is the program. Navy doesn't want its appropriations abruptly slashed after victory, relies on the press to carry the ball.

Land and aerial surveys have been started by American Forestry Association to determine the location and extent of woodlands suitable for expansion of the domestic woodpulp industry after the war. Reliance upon imports from Canada and the Scandinavian countries proved costly in the past three years.

Publishers have a primary interest, but they're not the only affected group. Fibre container manufacturers and their customers, especially the food group, have been hard hit. Rationing of pulpwood by means of WPB limitation orders and allocations has been the result.

Production of pulpwood is a relatively new industry in the United States. And the fact of adequate supplies from nearby Canada, in peacetime, discouraged growth. Development of new uses for paper has added to attractions held out to backers of the proposed new logging and pulping enterprises.

Census Bureau statisticians, with no romantic interest in the abstract subject of matrimony, find important economic results flowing from the wartime boom which shot the 1940-1943 total more than one million unions above normal expectancy.

First in importance was sharp upswing in babies, creating new peaks in the demand for children's clothing. Effects will be felt long after the war: elementary school building programs must be revised to receive abnormal enrollments in 1946-1947, and high schools must be planned for larger 1955-1956 entries.

End of war will send 2,700,000 married men back to their wives now living with parents or in places other than their own dwelling units, it is computed. That means demand for new homes or apartments, bringing with it a market for household utensils, refrigerators, radios, etc.

Tourist trade over the International Border no longer is suffering from wartime conditions. Department of Commerce compilations show United States visitors to Canada spent $109,000,000 in that country last year and those traveling the opposite direction left $56,700,000 in this country.

These data match pre-war levels. One important change was noted: the gasoline and new automobile situations shifted the great burden of traffic to railroads. ODT continues to plead for less use of trains, but restrictions on United States funds allowed Canadians effected the opposite result.

Jittery nerves occasioned by the change in Presidents are sending government employees to extremes. Department of Justice key men, beholden to Attorney General Biddle for their jobs have come up with this: Truman is not President, according to the Constitution; he's only acting President. That technicality isn't expected to save Biddle's political scalp.

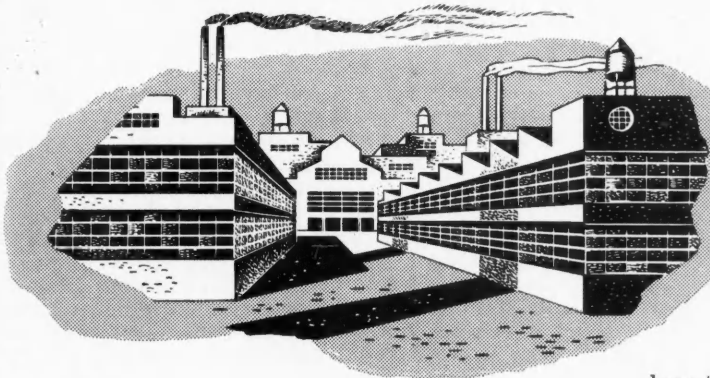
Lewis B. Schwellenbach, who served with Truman in the U. S. Senate, now on the Federal bench, is scheduled to succeed Biddle if he doesn't accept the Secretaryship of Labor. He was marked as an ultra-liberal in Congress, could be expected to go even farther to the left than Biddle, especially with organized labor issues.

U. S. Chamber of Commerce sees the John L. Lewis and James C. Petrillo demands for royalties as "taxation by individuals," and has a referendum mandate (2,667 to 101) to back pending bills outlawing this form of exaction. If history repeats, Chamber indorsement might well hurt, not help, the legislation.

Government-owned corporations, the instrument by which the New Deal carried out its broad program of loans to business, low-cost housing, numerous other projects, will be whittled away. Their defiance of congressional committees in the past decade has built up enmities which will translate into votes to end corporate existence, impose congressional control.

National War Labor Board soon will announce standards for overtime pay in the railway and local transit industry. There's no uniformity now. Standard workweek won't be 40 hours; time and one-half after 44 hours is the present outlook.

Companies Facing Greatly Reduced Postwar Earning Power



BY H. F. TRAVIS

UNDER the stimulus of war, aggregate corporate earnings are higher than in any year of the 1936-1939 pre-war period. However, this generalization is misleading, unless properly qualified. Actually, more industries have lower rather than higher earning power, as compared with peak pre-war years. But the gains of the minority have been so large that the effect is to inflate the over-all profit statistics.

In short, it can be said that we have seen a significant redistribution of corporate earning power during the war period. To emphasize the point, consider the following by no means exceptional example: Kansas City Southern, distinctly a borderline railroad, earned 1 cent a share on its common stock in its best year of the period 1936-1939, but earned 702 times as much, or $7.02 per share, last year. On the other hand, Chrysler, a strong company in the strong automobile industry, earned $14.25 a share in its best pre-war year but only 40 per cent of this, or $5.70 a share, in 1944.

Scores of similar examples could be cited. By and large, the most spectacular expansion of earning power in recent years has been enjoyed by companies which either were in a marginal position before the war or which were much below-average in profitability. Per contra, many excellent companies now have sub-normal earning power. It goes without saying that there is another reshuffle coming, in which many of the war-time winners will experience a large shrinkage in earnings. Under present taxes, the mere fact of record high earnings raises a question and suggests that investors should investigate carefully before taking it for granted that such earnings will continue.

Industries in which present earning power ranges from considerably above to greatly above that of 1936-1937 — a two-year period within most of which the composite business activity index was at, or moderately above, normal — include the railroads, aircraft manufacturing, shipbuilding, machine tools, liquor, petroleum products, motion pictures, copper and brass fabricators, sugar producers and refiners, rail equipment, coal mining, meat packing, tires and rubber goods, leather, cotton goods and woolen goods.

In few of these is there much chance that long-term earning power, in time of peace, will compare favorably with present earning power. In the writer's opinion, those with the best prospects are: petroleum, tires and rubber goods, liquors, rail equipments and movies. With the exception of aircraft — in which post-war possibilities are very hard to figure with any degree of assurance — all of the others before the war either were ailing industries, or industries subject to very deep cyclical fluctuation, or both.

It is not easy to generalize on these matters, for there are many qualifications. For example, consider the contrasting situations in oil and railroad equipment. In oil, the outlook for a quite extended — but nevertheless temporary — period after the war is not so good. Consumption will be considerably under the present level. There will probably be excess production of both crude oil and gasoline. Refining margins will not be as wide as now. Earnings will not be tax-cushioned anywhere near as much as in most other industries. But the **long**-term outlook — the secular trend — is favorable; and the industry, properly, has an above-average investment status.

On the other hand, due to large accumulated domestic and foreign needs, the railroad equipment outlook for the **early** post-war period, possibly for several years, is very favorable. But that isn't a long-term matter. The true long-term outlook appears far less promising. In relation to normal demands, the industry has for years had much over-capacity. On the locomotive end, the old-line companies now have effective competition from such powerful makers of diesel-locomotives as General Motors, Fairbanks Morse and others. In car building there is even more over-capacity. In short, it is improbable that the railroad equipment industry has said a final good-bye to its old "prince and pauper" status.

How is one to reduce this to sensible investment policy? Well, comparative prices must be taken into account and each stock must be judged individually. But the most speculative phase of the bull market is probably still ahead, and in a speculative phase most oils will advance less than average, rail equipments more. However, that does not mean that oils are now a smart sale, rail equipments a smart buy.

Bargain day is far behind in both. The writer would say that when oils decline moderately as earnings recede, they will present excellent long-term investment opportunities — and that, from a longer-term view, most rail equipments are good stocks to get out of somewhere in a bull market, and without trying to guess the last point of speculative rise, either.

At this point there is a valid question: Are not the differences in post-war earnings potentials already "allowed for" by the differentials in market prices? To a considerable extent, yes. That is why rails, even after huge percentage advances, still sell at a low ratio to abnormally high earnings per share. And that is why the leading chemicals sell in high ratio to earnings which are pretty much static for the duration of the war. Nevertheless, it is doubtful whether the price differentials, in many cases, are adequately realistic.

As is perhaps most strikingly illustrated by the rails, the visible fact of high per share earnings seldom fails eventually to whet speculative appetites. Thus, Southern Railway or Illinois Central are avidly bought now by people who wouldn't touch them 18 months ago at prices less than half those now prevailing. With "insider" dealings discouraged, it seems to be a characteristic of the modern stock market to "discount the news" after it is out — not in a complete sense, of course, for there are still goodly numbers of people who act in the market on advance information, or vision,

Balance Sheet Data

	(a) Working Capital 1939	(a) Working Capital 1944	Current Ratio 1939	Current Ratio 1944	(b) Book Value 1939	(b) Book Value 1944
Am. Bosch	$1.81	$5.15	5.8	1.6	$6.01	$14.40
Am. Sugar Ref.	29.70	42.49	5.3	4.0	137.33	159.74
Am. Woolen	32.80	49.40	3.3	2.1	——	40.30
Armour	102.20	136.10	3.5	3.1	13.59	26.12
Baldwin Loco.	13.20	17.20	2.5	1.4	36.89	36.60
Bath Iron Works	2.04	4.13	1.8	1.1	7.25	23.52
Central Violeta Sug.	0.65	1.59	6.0	3.4	25.44	34.76
Crosley Corp.	3.90	19.10	3.1	2.2	11.02	22.10
Cuban-Am. Sugar	11.81	12.57	11.8	3.7	23.89	28.53
Cudahy Packing	20.98	30.12	3.5	2.6	50.87	59.39
Diamond T Motor	1.92	5.22	4.8	1.2	7.90	21.66
General Bronze	1.83	1.55	8.6	1.4	4.91	11.87
Lehigh Coal & Nat.	3.80	5.90	2.0	2.0	21.06	23.12
Lima Locomotive	6.21	8.44	19.8	2.1	43.73	74.48
Lockheed Aircraft	2.89	122.41	1.4	2.1	8.78	47.36
Monarch Mach. Tool	0.92	2.62	3.8	1.5	8.59	22.99
National Acme	3.89	9.57	3.5	1.5	9.58	28.03
Ohio Oil	30.50	30.80	7.0	4.0	11.40	15.82
Pacific Mills	11.70	23.30	2.3	8.9	55.26	86.64
Penn. Coal & Coke	0.41	1.13	1.7	3.0	15.64	18.23
Pressed Steel Car	2.97	6.69	2.2	1.2	3.59	10.51
Purity Bakeries	2.82	5.26	2.6	1.9	13.39	18.10
Republic Aviation	0.89	7.88	1.3	1.1	——	11.27
Revere Copper & Brass	10.91	20.73	3.3	4.0	——	14.32
Sinclair Oil	98.20	89.50	5.1	2.3	18.34	22.90
S. Porto Rico Sugar	9.71	15.79	7.5	3.7	32.34	39.77
Warner Bros	8.69	30.35	1.5	2.0	18.09	27.41
White Motor	12.30	21.40	4.6	2.0	30.79	47.80

Data on Rails

	(a) Working Capital 1939	(a) Working Capital 1944	(a) Cash Items 1939	(a) Cash Items 1944	Current Ratio 1939	Current Ratio 1944
Atlantic Coast Line	$5.0	$19.2	$8.3	$48.0	1.4	1.3
Illinois Central	8.4	31.2	14.8	87.7	1.4	1.3
Kansas City Southern	1.4	3.1	2.7	15.7	1.4	1.15
New York Central	19.8	119.0	36.2	196.6	1.3	1.7
Southern Railway	6.3	29.6	12.7	95.3	1.3	1.3

(a)—In millions of dollars. (b)—Per share.

but in greater degree than formerly.

Coming declines in earnings, in most instances, should be no surprise — yet the writer, having some familiarity with human nature, will go on record right here with the prediction that large numbers of holders will not be budged into selling such stocks until lower earnings actually hit them in the face. And after sharply reduced earnings "come out" in the financial pages of the newspapers, the affected stocks will decline — perhaps moderately, perhaps severely. In short, though the relationship is far from exact, earnings changes of any magnitude — up or down — are rarely ignored in stock prices.

Proving the Point

Factual examples of this sort of thing naturally are few under the conditions existing in recent war years, but there are enough of them to illustrate the point made. For instance, last summer it was common knowledge that machine tool volume had long since passed its peak and that earnings of most companies in this industry were trending downward. Yet it was **after** the Bullard Company had issued a poor half-year report that the stock declined to $16\frac{5}{8}$, compared with 1943 high of $29\frac{1}{4}$. In 1941, *while* its earnings were at their war-period high — and even though the greater part of such earnings were well known to be temporary — the stock sold as high as $34\frac{1}{4}$.

Again, Lockheed Aircraft sold up to $25\frac{3}{8}$ in 1943 *when* earnings were at the rate of $7.42 a share annually, but went down as low as $14\frac{5}{8}$ last year *after* an interim report showed a sharp reduction in profits. It has since had a considerable recovery, but during recent strength in the aircraft group it remained, relatively, behind the leaders. Can anyone doubt that an influential reason is the visible fact that 1944 earnings of $4.20 a share were $3.22 per share, or 43 per cent, less than for the year before? Other aircrafts in due course will also report sharply lower earnings. When they do, will the stocks be able to ignore it? This writer doubts it.

Whether post-war earnings prospects justify the present advanced prices of most railroad equities is a moot point. Though lower than now, earnings will remain excellent — as compared with pre-war — for at least several years to come, even should the Jap war end this year. Demobilization itself, although in much less degree than mobilization, means a considerable continuing volume of war-based passenger and freight movement. There are tax cushions and carry-backs to mitigate the effects of transitional decline in pre-tax earnings. Export prospects appear good for at least a couple of years, and that means business for the rails. Assuming we have a considerable "catching-up boom," spearheaded by exceptional activity in the motor and building fields, as widely predicted, that is business for the rails.

Nevertheless, the vista thus painted is for a temporary period; and that fact must and will have recognition in the true investment evaluation of rail stocks. Competition from highway, water and air-line carriers must be reckoned with. And while the financial status of the rails has been much improved, the significance of this change — so far as it relates to future earning power — has been exaggerated. The biggest debt reduction has simply been the "write-off" among receivership rails. For solv-

Statistics on Earnings per Share

	War Period Earnings		Pre-War Earnings	
	High Year	Average 1941-44	*High Year	Average 1936-37-39
Am. Bosch	$2.03	$1.42	$0.17	d $0.78
Am. Sugar Refining	4.98	2.52	2.67	1.35
Am. Woolen	11.23	7.96	d 0.35	d 4.45
Armour & Co.	1.95	1.92	0.73	0.42
Atlantic Coast Line	27.46	20.48	2.97	2.08
Baldwin Locomotive	4.23	3.73	0.41	d 0.83
Bath Iron Works	9.48	6.32	b 0.58	c 0.31
Central Violeta Sugar	6.03	3.48	1.63	a 0.68
Crosley Corp.	6.05	4.23	2.27	0.58
Cuban-Am. Sugar	3.60	1.71	0.70	0.49
Cudahy Packing	6.58	6.04	2.65	d 0.56
Diamond T Motor	5.85	4.61	2.02	1.27
General Bronze	1.91	1.70	0.48	d 0.36
Illinois Central	17.68	13.53	0.90	0.45
Kansas City Southern	7.02	4.07	0.01	d 0.31
Lehigh Coal & Nat.	1.75	1.25	0.34	0.06
Lima Locomotive	8.61	7.01	4.83	0.74
Lockheed Aircraft	7.57	6.52	b 0.67	c 0.34
Monarch Mach. Tool	7.14	4.90	b 2.08	c 1.65
National Acme	6.29	4.88	2.85	c 1.53
New York Central	9.73	6.74	1.79	1.16
N. Y. Shipbuilding	9.11	6.99	b 0.82	cd 0.54
Ohio Oil	2.50	1.95	1.31	0.64
Pacific Mills	6.81	5.74	2.41	d 0.28
Penn. Coal & Coke	3.03	1.28	d 0.17	d 0.66
Pressed Steel Car	2.59	2.02	1.05	d 0.08
Purity Bakeries	2.86	2.41	2.14	1.21
Republic Aviation	3.76	1.92	d 0.17	d 0.71
Revere Copper & Brass	2.64	1.41	1.21	0.58
Sinclair Oil	2.29	1.70	1.48	1.04
S. Porto Rico Sugar	7.65	6.06	3.00	2.66
Southern Railway	23.41	17.67	2.69	0.67
Twin City Rap. Transit	5.12	e 3.95	2.00	0.96
Warner Bros.	2.21	1.89	1.48	0.86
White Motor	4.94	4.15	1.09	0.46

*—Of period 1936-1939. d—Deficit.
a—Average of 1937-1939. b—Prior to 1939.
c—Average of 1936-1938. e—Years 1942-1944.

ent roads the reduction in fixed charges has been moderate. Finally, variations in gross revenue and operating expense will continue, as in the past, to have far greater effect upon earnings than the level of fixed charges. As for working capital, the current ratios in most cases are not greatly different from what they were in 1939 (see table); and swollen cash holdings will dwindle greatly when (1) taxes were paid as (2) the stream of Government money is curtailed.

Whether or not rail stock prices go considerably higher, a reasonable conclusion is that most rails are now well-advanced into quite speculative market territory. Prudent investment money can not ignore that fact.

The basic status of the manufacturers of rubber goods has been much improved, as this publication has pointed out before. But earnings during the "catching up boom" can hardly be significantly better than they are now, and genuine long-term earnings will almost certainly be lower than now, even though probably better than the pre-war average. And among all market groups, these stocks have already had one of the greatest advances. Some market "cream" may be left, but probably far less than has already been skimmed off.

Much the same investment reasoning would seem to apply to the liquor companies, which have made a literal "killing" during the war. Prior to last year, these stocks were much under-rated both on current earnings and post-war potentials, but they have had a boom in recent months. Because of the political factors involved — the Dry movement is gaining ground in various states and counties — they do not command high price-earnings ratios. Present ratios, on prospective longer-term earnings, probably are above an enduringly supportable average.

The post-war movie industry will be on a more solid footing than it was before the war, but part of the present record-breaking prosperity is nevertheless war-born. Theatre attendance and admission prices will be lower and over-all production costs — with more films made and fewer ancient pictures profitable — will be higher. These stocks, after a huge percentage rise, began to level off some time ago. Their subdued market action reflects warranted doubts that present earning power can be retained.

Outlook for Machine Tools

The machine tool prospect, from an investment point of view, is very similar to that already painted for rail equipments. Earnings during the "catching-up" phase in domestic and export business will be much better than pre-war, not nearly as good as the war-time average; while long-term earnings, except in special situations, probably will average materially lower than during the early post-war period. Hence, quite moderate price-earnings ratios appear warranted.

The status of the other stock groups now enjoying inflated earnings, and subject to long-term shrinkage therein, is too obvious to require much detailed comment. Aircraft is the most conjectural and debatable. Some analysts make much of the fact that many of these stocks sold higher in the market before the war than they do now — but they were then popularly regarded as "growth stocks" and carried proportionately high price-earnings ratios. It seems certain that earnings for at least the next several years will depend much more on Government business than on private demands and that long-term peace earnings will be materially under the war-time average for at least the great majority of the companies.

There will be good business in textiles until the shortages are made up, but they can be made up relatively quickly; and the cotton and woolen goods branches will revert to their normal highly competitive, low profit-margin basis. In sugar, coal, meat packing, leather, and non-ferrous metals fabrication — probably also in non-ferrous metal mining — long-term earnings prospects, and transitional-period prospects, are unquestionably sub-average.

In the accompanying tables are listed a number of individual stocks. It will be seen that war-period earnings have averaged far above pre-war earnings, and the highest earnings, annually, within the war period have in most cases been greatly above peak pre-war figures. Note that the pre-war average used is that for 1936, 1937 and 1939 — good peace-time years — and that the depression year 1938 is excluded. Even so, ten of these companies actually had deficits on their equities for 1936-1937-1939.

A few of the stocks in the list are of fair quality, but the degree of war-time inflation in recent-year earnings is so great and so obvious, in comparison with past peace-time experience, that it suggests that longer-term main- *(Please turn to page 159)*

The NEW CANADA

—What it Means to the U. S.

BY
JOHN LYONS

Gendreau Photo

General view of Montreal, from tower of the Canadian Pacific station.

THE imminent end of war in Europe finds our good neighbor to the North well into its sixth year of all-out military effort topping all previous records of production and full of fighting zeal. During this long struggle even the invisible boundaries which theoretically separate us from the Canadians have evaporated and our common problems have been integrated to an extent never before equalled in history. While postwar conditions will not weaken our mutual ties of friendship, the strong individuality of our two nations is bound to find expression in the handling of somewhat differing economic and political trends, as well in the solution of problems falling to all countries as the aftermath of war. A better understanding of what Canada has accomplished and how she hopes to adjust herself in the dramatic world picture about to unfold would therefore seem of practical value.

Prewar Trends

Until the outbreak of hostilities in 1939, Canada had been striving for a quarter of a century to emerge from economic handicaps highlighted by her experience in World War I and the years that followed. With a population of less than 12 million and an expanse of territory greater than our own, a predominance of agricultural production had in early years thrown her economy out of balance. To a large extent the consumer goods her people required had to be imported, largely from Great Britain and the United States; so with an eye to becoming more self-sufficient Canada embarked upon a program of industrial development which by degrees assumed substantial proportions and has become more and more closely tied up with our own economy, at the expense of trade with England. The United States has long been Canada's best customer, gradually through the decades replacing the United Kingdom as her chief source of supply of manufactured goods.

The immense natural resources of the Dominion, and her traditionally dominant position as the world's largest exporter of wheat and nickel, and her sizable production of copper, gold, aluminum and furs, have tended to cloud the perspective of her rapid industrial growth, which even before the war had far outstripped other sections of her economy. Limitations of population and transportation weighed heavily against mass production of many items on a competitive basis with imports, although the supply of many consumer goods of home manufacture tended to raise the Canadian standard of living to second rank in the world.

In spite of her forward strides in industrial output and her large exports of agricultural products and minerals, overreliance upon revenues from sales abroad, sometimes amounting to as much as 40% of the national income, has made the Dominion economy unduly vulnerable to worldwide fluctuations in both price and demand for her products. For this reason, the impact of periodic depressions has always accentuated and prolonged the Canadian experience at such times.

Still struggling to lift herself out of the depression of the 1930s, with her agriculture in bad shape and with 300,000 unemployed clamoring for jobs, war crashed on the Canadian scene in 1939. With it started an industrial and agricultural revolution which in little more than five years has equalled the normal progress of a quarter century, thrusting Canada into third place among the trading nations and tripling manufacturing capacity into a wide range of new fields. How to maintain its war-won level of national income and how to foster foreign trade on a basis sufficient to support her swollen capacity has raised problems across the border very similar in some respects to our own, but holding

even greater difficulties as to their solution. Only increased world trade can supply a happy answer.

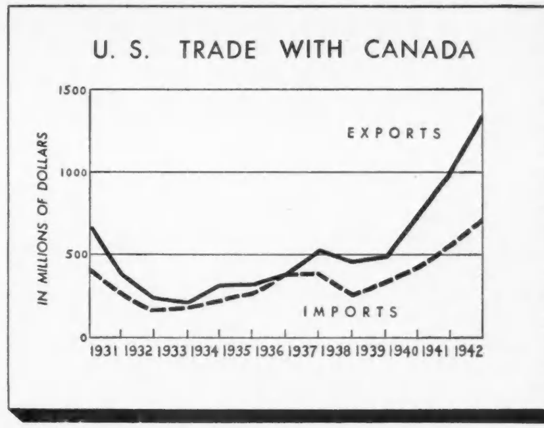
How 11½ million Canadians have achieved an almost incredible productive capacity, while diverting a quarter of a million men to the army, 200,000 to the airforce and another 75,000 to the navy will always arouse wonder and admiration. The process involved raising the number of industrial workers from about 1 million at the start of war to double that number presently employed. While the ample reservoir of unemployed workers helped matters, about half a million were women and oldsters from the homes; the balance had to be drawn from the farms, mines and forests. In spite of manpower shortage, however, Canadian farmers in 1944 produced field crops valued at $1,319,000,000 or nearly double the 1939 figure. Many of the Dominion's 25,000 manufacturing plants followed our example in converting to production of guns, tanks, aircraft and other munitions, and a vast expansion of facilities for new enterprises was rapidly accomplished, including over a dozen large-scale industries previously non-existent in the Canadian economy.

Curiously enough, with thousands of miles of ocean frontage, Canada in prewar days had no shipbuilding industry, but starting from scratch it has since built its 750 ship navy and over 600 Liberty ships for the allies. She now has the two largest blast furnaces in the British Empire, and total steel production has more than doubled. Output of special steels is five times that of prewar years, while the production of aluminum has expanded sixfold. Construction in eighteen months of one of the largest hydro-electric plants in the world at Shipsaw, Quebec has importantly added to Canada's already immense sources of low-cost power. Huge aircraft plants now turn out Liberators by the score and their tires are made in newly constructed synthetic rubber plants of most modern design. Guns, tanks, ammunition and trucks have poured forth from Canadian production lines not only to fully equip her own substantial army but also to fill important contracts with Britain and her allies. Of even greater long range significance are hundreds of new plants, for the first time in Canada's experience turning out nylon, optical glass, certain special machine tools, plastics and equipment for electronics and communications, while great expansion has occurred in the fields of footwear and textile manufacture. So diverse and so substantial has been all this industrial growth in the space of a few feverish years that presently only 70% of the

Canada's Balance of International Payments

(Millions of Canadian Dollars)

Calendar years	Exess of exports (ex gold) According to trade returns	According to trade balance	Net balance-of-payments credit on current account	Total self-financing of exports
1937	+203	+265	+180	——
1938	+171	+195	+100	——
1939	+185	+193	+126	75
1940	+111	+196	+149	219
1941	+191	+468	+491	917
1942	+741	+1,109	+1,101	1,178
1943	+1,266	+1,471	+1,206	901
5 years, 1939-43	+2,494	+3,437	+3,073	3,290



total output is required to meet the pressing needs of war, thus releasing a fair percentage for civilian consumption and limited exportation. Last and not least, the entire program has been carried out without any recourse to Lend-Lease aid from the United States, according to the latest available reports.

Two factors have predominantly facilitated this remarkably successful feat: (1) The closest kind of industrial integration with the United States in mutual support of the war effort. (2) A Government policy of economic and financial control more far-reaching and in some respects more severe than our own. While long established and intimate trade relations with the "States," as Canadians call our country, made cooperation easy and immediate, a two years head-start in the war program intensified Canada's need for dollar balances to finance her purchases of equipment and materials from us. Huge sterling balances accumulated in Britain as the result of a war imposed export-import ratio of 10 to 1 were of no use to her here, and important shipments of minerals, pulp and paper to us were insufficient to pay her bills for war equipment and materials. This problem was quickly solved, however, and when the United States entered the war, commissions appointed by the respective Governments worked out the most elaborate plans to integrate the industrial activities of the two countries. As a result of heightened inter-trade, Canada's 1944 purchases from the United States amounting to just over a billion dollars were offset by exports to us of $1,235 million, producing a large balance in her favor and fully expressive of the country's high degree of productivity.

Integration of the wartime industrial activities of Canada and the United States was naturally facilitated by the large amount of capital we have progressively invested in this neighboring country. Years ago, many of our great manufacturing concerns discovered a dual advantage in establishing branch factories or distributing offices across the border; not only could the inviting Canadian market be better exploited, but also many foreign markets enjoying special tariff arrangements with Canada, especially in the British Commonwealth.

The extent to which United States capital has replaced that of the British in the Dominion in the last thirty years is striking. In 1913 our stake in Canada was only $780 million against $2,570 million for the British. By 1937 America led with $3,996

million against $2,727 million for Britain, and the spread in our favor has since steadily widened by increased investments on our part and a substantial repatriation of British investments by the Canadians. Even at the outbreak of war about 1200 Canadian concerns were controlled by or closely affiliated with American companies, and it was estimated that these branches handled 25% of the business done across the border. While figures are not available to indicate the wartime increase in our Canadian investments, it has presumably been on a large scale.

Wartime planned economy in Canada has been exceptionally well handled, especially considering its exaggerated political, industrial and racial sectionalism. To harmonize these vigorous groups making up the country's population into a united program embodying stiff price and wage controls, military requirements and a courageous income tax formula has certainly been an outstanding achievement. Basically, Canada's wartime financial and administrative controls have closely followed the pattern of Britain and the United States, but net results in some respects have improved upon the experience of the two larger nations. From the very start of the war, Canada has boldly adhered to a policy of high taxation of incomes to support her revenues, tax rates in the middle brackets exceeding any in the world and for all classes rising above similar rates established in America, though slightly under the British rates in the higher brackets. A married Canadian with two children and earning $4,000 a year hands the tax collector $1148, and a single man earning only $1500 parts with $367.50. These rates result from a progressive step-up from year to year since 1939. Partially offsetting these heavy burdens is a postwar refundable portion, the current payment of which acts as a check against inflationary pressure.

A rise in Canadian national income to a record height of $9,186 million in 1944 would, assuming a population of 11½ million, produce a per capita figure of $798, compared with about $1,280 in the United States. The Canadian however has the advantage of lower cost of living, his index in this category being only about 118 against conservatively 125 in the "States." Moreover rationing across the border is much milder than here in this country, and the Canadian enjoys a much more ample supply of consumer goods that we do, due mainly to the excess capacity of manufacturing facilities. On the whole, therefore, the average Canadian has many gains in comfort to offset his stiff sacrifices for the war effort. Luxuries and many durables, such as automobiles and radios, are of course unobtainable, but the fact that efficient government controls have kept living costs far below a 40% increase in wholesale prices attests to the success of the control program.

Corporate income taxes in Canada have been gradually raised to 18%, and, as here at home, the Excess Profits Tax importantly bolsters Government revenues. For the sake of simplicity it will suffice to state that corporate taxation is so designed as to limit profits after taxes to about 70% of prewar profits before taxes. But a postwar refund is provided equal to 20% of profits above 1⅙ of the prewar "standard." Special allowance is made for new concerns, marginal companies and old concerns which have expanded through the use of security issues, thus encouraging the investment of new capital.

Special Financing of Wartime Exports, Calendar Years

(Millions of Canadian Dollars)

Item	1939	1940	1941	1942	1943	Total to end of 1943
Export of Canadian produce ex gold	925	1,179	1,621	2,364	2,971	9,060
Official transactions:	75	137	189	296	4	701
Repatriation of securities						
Repatriation of production by purchase of U.K. interest in war-plants						
Fixed assets	—	—	—	—	205	205
Working capital	—	—	—	—	190	190
Increase or decrease in sterling balances	—	+82	+728	—818	—	692
Loan to Britain of	—	—	—	+700	—	
sterling unliquid	—	—	—	1,000	—	1,000
Billion dollar contribution						
Mutual aid	—	—	—	—	502	502
Total	75	219	917	1,178	901	3,290

How Canada Financed the War

As a result of these and other tax measures, Canada has been able to finance all her war requirements without outside assistance, and to meet her swollen war budget by borrowing only half of requirements, as contrasted with about 60% here and in Britain. The distribution of her Victory Loans has been remarkably efficient, practically none being taken by the banks, an average of some 14% by insurance companies, 36% by corporations, 43% by individuals and a small percentage by miscellaneous sources. The six Victory Loans have all been oversubscribed, and the seventh is now under way with a record offering of $1.3 billion. Upon the issuance of this latter loan, the estimated per capita public debt of Canada will be about $1,356 compared with over $2,000 in the United States, indicating a relatively lighter service charge in postwar years. Bank of Canada note circulation in the Dominion has had a 350% growth during the first four years of war, but per capital currency circulation is only half of what it is in the United States. Up to about a year ago, total money supply in the Dominion had risen only 77% compared with an American rise of 104%.

By and large, Canada has managed her wartime program with remarkable efficiency and now, like all other nations, is wondering what the future has in store. The expansion of her total physical production has been many times that during the First World War but population growth has nowhere near kept pace. At peak production in the present conflict, 70% of manufacturing capacity was engaged in meeting war demands which sooner or later will vanish. With a prewar capacity already exceeding domestic needs, present expanded facilities create a very serious problem. Possibilities of adding to her population by immigration are limited, since Canada has become very selective in her choice of newcomers. The only plausible solution is still greater expansion of for- (*Please turn to page* 164)

What of the Postwar Position of the Pharmaceutical Industry

BY GEORGE W. MATHIS

THE war in many ways has been highlighting the vital importance of the drug industry, for upon its output has depended the saving of countless lives and the health of entire nations. Science, spurred by worldwide physical distress, has matched new forms of destruction in war with its own new magic. The latter, too, has taken many forms, attacking the ills of mankind on many fronts. We all have heard of the wonders of sulfa drugs and penicillin, most modern and efficient bacteria killers; of atabrine, the synthetic quinine without which our campaign in the South Pacific might have been well nigh impossible; of new serums, antiseptics, anesthetics and the long list of modern curatives that will permanently benefit mankind.

In all this, the pharmaceutical industry had a vital part transcending mere dollars and cents aspects. From a strictly material standpoint, the drug industry has gained relatively little from war-bred expansion of volume, large as it was. Still, average performance has been distinctly forward and it may well be that the main financial reward may come after rather than during the war period.

Normally, the industry contributes a relatively small percentage to the national output; as an employer of labor, it is quite insignificant and investment in plant and equipment is modest. Yet none could play a more vital role, in peace and war. Urgent war demands supplemented by civilian orders swollen due to high wartime income have raised volume from about $510 million in 1939 to some $800 million in 1943 and probably to a still higher figure last year; percentagewise, the increase is small if compared with far more impressive volume gains in most other war-active industries. At present, a period of moderate volume contraction is in the offing. Ethical drug manufacturers will be primarily affected by the sharp reduction in Government buying anticipated after the end of the fighting in Europe; but this slump promises to be shortlived since development of new products and new markets should assure a further uptrend in sales over the longer term in line with the secular growth of health standards everywhere.

When War Business Drops

Withdrawal of war business will affect proprietary producers to a lesser extent though any marked decline in consumer income would naturally find reflection in a less active market for their products. Longer term prospects will depend on the successful promotion of new products and retention of markets for those already introduced.

The drug business has always been regarded as one of the most stable, yet surprisingly, it has been subject to a good many incisive changes in recent years. These fluctuations, incidentally, are "self-inflicted," stemming from the fruits of research rather

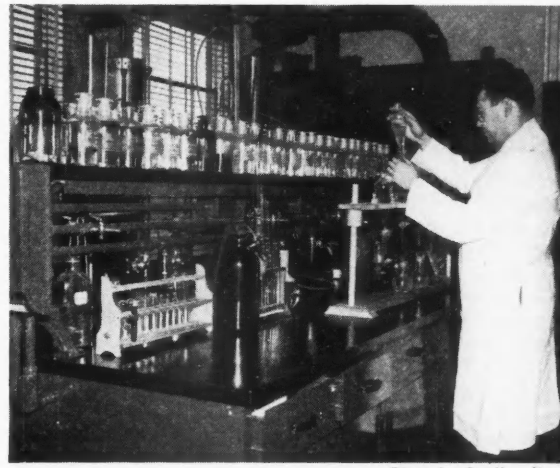


Photo by Sterling Drug

A modern pharmaceutical research laboratory, typical of many which contributed to the development of today's miracle drugs.

than from swings in demand. In a sense, the industry has been constantly "researching itself" out of a profitable business. Fortunately for future earnings of the drug makers, there are always new fields to conquer and they are still wide and fertile.

To illustrate the point, let's recall the discovery of sulfa drugs which some years ago marked a new milestone in the art of healing. The advent of sulfa drugs did away with a large line of profitable serums, no longer needed.

Then came penicillin, effective against a much wider range of diseases than the sulfas and avoiding the toxic effects that some of the sulfas produce. Penicillin now already has begun to affect the sales in sulfa drugs to the armed forces. With the expected early general release of penicillin to civilians, the inroads into sulfa consumption may conceivably assume eventually larger proportions.

Research into vitamins, as we all know, has been and still is enormously profitable and has led to a concentrated study of the whole field of nutrition. The latest development consists of so-called amino acids, new body builders which promise a fighting chance to salvage the millions of half-starved human wrecks left in the wake of war. The drug and chemical industry is mobilizing to provide these amino acids on a mass scale; research men characterize them as second only to blood plasma and penicillin among recent medical discoveries. It is said that nothing since the floodtide of vitamin research has aroused such feverish activity among the laboratories. Notable in this new field are such firms as Merck & Co., E. R. Squibb & Sons, Winthrop Chemical, du Pont, Mead Johnson and U. S. Industrial Minerals & Chemicals, apart from a number of smaller but well-known laboratories.

All this goes to show that notwithstanding past stability from an investment standpoint, there is

nothing static about the pharmaceutical industry. Forever, scientific research is opening up new frontiers, and therein lies one of the industry's main attractions apart from the widespread and basic need for its products.

The drug industry covers such an immense range of items that its functions have naturally drifted into the hands of many specialists, although policies of diversification have led numerous large concerns to broaden their output on a wide scale, with corresponding variations in distribution methods. Steady demand for the primary or so-called ethical drugs, even in periods of severe economic depression, has always favored makers of these items with an unusual degree of stability in their operations. Hardly less fortunate in this respect are well established manufacturers of proprietary drug items. Demand for cosmetics is much more volatile, as it is strongly affected by cyclical swings in consumer income, thus imparting a highly speculative tinge to the stocks of concerns specializing in this market based upon feminine appeal.

The Ethical Drug Makers

Makers of ethical drugs have certain operating advantages seldom found in other branches of industry. For one thing, the standard characteristics of their products obviate much need for promotional expense, as their sales activities are mostly confined to distribution of samples and printed matter to physicians, and a few paid notices in medical publications. During war years, of course, they have enjoyed a sellers' market with the Government flooding them with orders for the Armed Forces and lend-lease, although price control on this kind of business has been tight. The manufacturing process is highly mechanized, thus reducing costs and minimizing problems of wages and labor shortages, while the relatively light character of the required machinery reduces the amount of capital outlays for plants and equipment.

As for raw materials, the abrupt stoppage of botanical supplies from the Orient after Pearl Harbor has been progressively offset by increased plantings here in the United States, Latin-America and Africa, so that presently the situation is again quite comfortable. In normal times, with ample supplies of raw materials generally priced at a stable level, drug manufacturers experience little difficulty in their manufacturing operations from this angle. New products and new processes have featured the wartime progress of the drug makers in striking fashion, while at the same time chemical manufacturers have been equally busy in producing new synthetic pharmaceuticals of definite therapeutic value, thus further easing the threat of shortages in the natural products.

The Advent of Penicillin

One of the most dramatic chapters has been the rapid stride of penicillin into mass production, with United States manufacturers now turning out 95% of the world's supply, in amounts sufficient to provide all Allied forces with this remarkable drug, and within recent months, to release additional amounts to partially meet civilian needs. Further developments of this character promise to sustain and expand civilian demand in postwar years for many new products born of wartime experience in the medical field, and their use will be stimulated by increased efforts to improve the public health. In this process, manufacturers of ethical drugs should experience a rapid upsurge of civilian demand to offset importantly the inevitable decline in military requirements.

Manufacturers of proprietary drugs have problems all of their own, although from the production standpoint their operations are reasonably simple. To establish satisfactory volume for any new trademarked product requires large outlays to cover sales and advertising costs, and when adequate popularity has once been gained, nearly 20% of sales receipts must be used to retain its competitive position. Packaging expenses are substantial, not only for containers but for the labor involved. Wage costs of the proprietary drug makers average about 6% of volume, or a dozen times that of ethical drug manufacturers, the latter shipping

Position of Leading Pharmaceutical Companies

	Sales ($ mill.)			Net per share		Div. per share		Book	Divi-	Price	1944-45	
	1936-39 Avge.	1941	1944	1936-39 Avge.	1944	1936-39 Avge.	1944	Value per Share	dend Yield	Earnings Ratio	Price Range	Recent Price
Abbott Lab.	9.623	16.744	38.428	$2.35	$3.43	$1.98(a)	$2.20	$26.38	3.3%	19.3	66½-52½	66½
Allied Lab.	2.520 b)	3.240	6.036(c)	1.29	1.42	0.72	0.70	14.16	3.7	13.0	20½-16⅛	18½
Amer. Home Prod.	26.425	44.415	98.999	4.17	4.74	2.54	2.70	26.58	3.4	16.3	77½-65	77½
Bristol Myers	15.139	22.444	34.455	3.31	3.66	2.50	2.00	19.66	3.7	14.6	53½-40¼	53½
Lambert	10.761	13.601	25.016	1.66	2.75	1.75	2.00	11.31	5.8	12.3	35⅝-26	34
Lehn & Fink	6.801	8.688 Je	17.143 Je	1.41	1.76 Je	1.34	1.40	12.56	6.1	12.8	23⅞-18¼	22½
McKesson & Robbins	146.461	84.531(f)	279.194 Je	—(d)	2.73 Je	—(e)	1.35	27.39	5.2	9.5	28¾-21⅝	26
Merck & Co.	19.960(h)	39.615	52.763	2.89(g)	1.75	1.16 g)	1.00	16.50	2.9	19.1	43¾-33½	33½
Norwich Pharmacal	4.465	6.049	11.050	1.01	0.89	1.04	0.60	5.34	4.3	15.6	16 -12¼	13⅞
Parke, Davis & Co.	31.459	39.077	49.811	1.85	1.55	1.76	1.30	6.76	4.3	19.5	32¼-26⅝	30¼
Sharp & Dohme	9.631(b)	15.220	27.220	0.15	1.09	Nil	0.50	——(d)	3.6	12.6	14⅞-11¾	13¾
Squibb(ER) & Sons	18.012	23.808 Je	47.982 Je	2.57	3.98 Je	0.69(i)	2.00	29.00	3.2	15.3	64¼-57	61
Sterling Drug	34.928	47.678	68.350	5.17	4.55	3.98	3.00	18.82	4.2	15.5	71¼-61	70½
United Drug, Inc.	89.762	102.460	147.793	0.91	1.62	0.31	Nil	15.43	—	11.5	19⅛-12½	18¾
Vick Chemical	9.729 Je	12.834 Je	31.993 Je	3.83 Je	3.62 Je	2.85	2.00	19.46	4.0	13.8	52 -41½	50

(a)—Plus 5% stock div. in 1939. (b)—1937-9 Avge. (c)—1943; 1944 not available. (d)—Not available. Je—Fiscal year ended June 30. (e)—In 1937 paid 1/25 share of $3 pfd. stock. (f)—6 mos. ended June 30, 1941. (g)—Before 3-for-1 split. (h)—1939 only. (i)—Plus 1/100 sh. $6 1st pfd. 1937-9.

mostly in bulk. All in all, production costs of proprietary items average about 30% of sales receipts, so that when selling costs and trade discounts are added, the margin for earnings tends to thin, even before the tax collector takes his generous share.

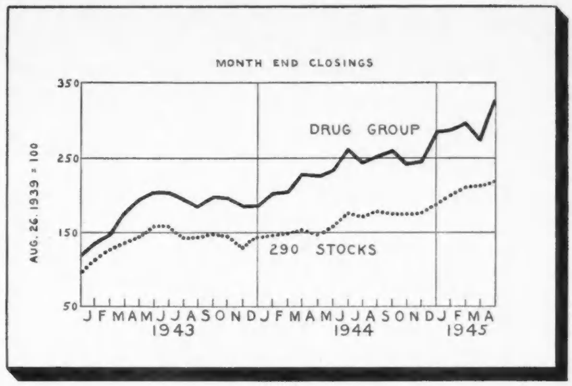
Competition, also, is keen in the proprietary field, entailing watchful supervision of prices at all times. Successful progress of this branch of the industry has been made possible mainly by volume gains to offset a rather steady upward trend in costs. Whereas in the good old days of 1929 net profit margins of four representative manufacturers of proprietary drugs were about 32.7% of sales, in 1943 the figure had shrunk to only 8.8%. Increased volume nevertheless has permitted satisfactory net profits, and as the impact of war taxes is not likely to get more severe, net margins probably have hit bottom, and in postwar years undoubtedly will improve. Growth potentials for the proprietary drug trade, however, are less promising than for the makers of ethicals, and the eventual elimination of Government orders, which have liberally met the desires of the armed forces for favorite proprietaries, may for a considerable time reduce volume.

Postwar export demand probably will be far more substantial than was the case before hostilities commenced, when barely 5% of our drug production went to foreign countries. Not only will foreign relief requirements absorb large amounts of drugs, but cash purchases from all over the globe, as well, should swell volume in this category. A particularly gratifying expansion in demand has already occurred in the Latin-American countries, where prewar trade in drugs was practically dominated by German interests.

Product Diversification

Some of the most important factors in the drug industry diversify their operations so widely that they include all kinds of pharmaceuticals as well as many other unrelated items. McKesson and Robbins, for example, with sales of $279 million during its last fiscal year topping those of all companies in the drug field, achieves its standing by manufacturing and wholesaling both ethicals and proprietaries, additionally doing a large business in liquors, both domestic and imported. By maintaining 72 wholesale outlets in 34 states and in Hawaii, the company distributes about 20% of all drugs and sundries sold in the country. Growth of this concern has been spectacular in recent years after successfully surmounting earlier vicissitudes, and by progressive financing at low rates it is strongly fortified to handle its postwar potentials. The current price of its common stock, around 26, with a dividend yield of 5.2%, is only about 2 points above its low for 1944-45, and has a measure of speculative appeal. With former heavy funded debt now retired and with sinking funds likely to retire the preferred in due course, the common has interesting potentials.

Abbott Laboratories, an outstanding manufacturer of ethical drugs, concentrates upon production of pharmaceuticals, biologicals and vitamins, and ranks third in sales of these items. Its extensive research facilities enable the company to place many new products on the market, and its diversified



list of offerings now include over 1200 items. The earnings record of Abbott has been unbroken for many years past and dividend distributions, while variable, have been equally consistent. The company has no funded debt and only $3 million of preferred stock outstanding. Dividend yield is only 3.3%, lowest of all but two on the appended list. The current price of 66½ has never been exceeded since a high of 70¼ was registered in 1940, and future potentials seem to be rather well discounted.

Parke, Davis & Co. also is prominent in the ethical drug field, well entrenched in the trade, and has an aggressive management. Earnings have been remarkably stable for the past 15 years, during which period annual dividend payments have never fallen below $1 per share, and the strong financial structure has warranted distribution of a liberal share of earnings. Since the company's products are largely medical necessities, sales probably will remain relatively constant in future years and extreme competition is not indicated. With costs and selling prices relatively fixed earnings may ordinarily be expected to be stable. Prices for the common have moved within a relatively narrow range for many months past; the recent level of 30¼ compares with the year's high of 32¼.

Diversification in a large way has established American Home Products as one of the two most important manufacturers of pharmaceuticals, nutritional and vitamin products, extensive lines of proprietaries, household specialties and cosmetics additionally bolster volume. Acquisition of more than 20 concerns in the last five years has made for consistent growth in volume from $13.6 million in 1929 to $105 million in 1944, but relative figures for net earnings of $3.3 million and $5.1 million respectively are widely disproportionate to the volume gain mentioned. Both net earnings and dividend payments have been unusually stable for many years past, including periods of economic depression, and this factor has contributed to the current price strength of the common which sells around 77½, highest since 1929, producing a yield of only 3.4%. While $13.3 million 15 year debentures are senior to the common, no preferred stock exists, and working capital of over $30 million appears fully adequate to handle the company's expanding business. Current price of the common indubitably reflects growth potentials believed inherent in the company's structure and policies. Postwar volume must be relied upon to justify present optimism, and to sustain volume *(Please turn to page 154)*

Investment Audit of . . .

CRANE COMPANY

BY J. C. CLIFFORD

CRANE COMPANY, important Chicago producer of valves, fittings and plumbing fixtures, last year celebrated its 90th birthday. On July 4, 1855 the Crane business was founded in a very small shop in the Windy City. Richard T. Crane was founder and president until 1911, Charles R. Crane succeeded for two years, and R. T. Crane was president in 1914-31. The Crane family is still represented in the management (C. R. Crane II is Vice-President). Under the family leadership the company has become an outstanding firm in its field, with nationwide facilities and thousands of highly specialized employees. John H. Collier has been President since 1941.

The main plant at Chicago includes 60 buildings with a floor space of about 3,400,000 sq. ft., and numerous other plants are located in Connecticut, New York, Alabama, Tennessee, New Jersey, Canada, England, France, etc. In the prewar period sales were divided about as follows: U. S., 83%; Canada, 9%; England and other foreign countries, 8%.

Most of the company's business is wholesale, sales being mainly through branch offices of the company and its subsidiaries. In addition to its own manufactured products, the company does a large jobbing business, and in 1939, 42% of sales represented products manufactured by others and handled by Crane on an agency basis. The company has 126 branches located throughout the country to serve local trading areas, and Crane products are also handled through hundreds of wholesalers.

Comparative Balance Sheet Items

($ millions)

ASSETS	1941	1944	Change
Cash	10.390	14.975	+4.585
Marketable securities	0.192	11.973	+11.781
Receivables, net	19.240	14.370	—4.870
Inventories, net	32.966	25.574	—7.392
TOTAL CURRENT ASSETS	62.788	66.892	+4.104
Plant and equipment	74.370	70.760	—3.610
Less depreciation	30.112	33.810	+3.698
Net property	44.258	36.950	—7.308
Other assets	13.814	14.961	+1.147
TOTAL ASSETS	120.860	118.803	—2.057
LIABILITIES			
Notes payable	0.334	——	—0.334
Accts payable and accruals	7.207	7.157	—0.050
Reserve for taxes	9.627*	2.086*	—7.541
TOTAL CURRENT LIABILITIES	17.168	9.243	—7.925
Minority interest	0.725	0.779	+0.054
Long term debt	9.500	2.000	—7.500
Reserves	4.265	13.109	+8.844
Capital	77.996	77.996	——
Surplus	11.206	15.676	+4.470
TOTAL LIABILITIES	120.860	118.803	—2.057
WORKING CAPITAL	45.620	57.649	+12.029
Current Ratio	3.6	7.2	+3.6

*After deducting $5.0 mill. U. S. tax notes in 1941 and $21.6 mill. in 1944.

The business consists of four main divisions, (1) valves, fittings and appliances; (2) plumbing fixtures and appliances; (3) heating apparatus and related products; and (4) miscellaneous manufactured items. Valves are the most important line. They are made in many shapes and sizes, designed to serve many industries. Standard sizes range from ¼ inch to 84 inches in diameter. They are made for the control and passage of water, oil and other liquids, steam, air and gases, with the design and composition suited to various pressures and temperatures and to resist many kinds of chemicals. Among the industries served are construction, public utilities, railroads, water works, steel, shipbuilding, oil, chemical, machinery and food products.

Wide Product Range

Plumbing fixtures include bath tubs, lavatories, laundry tubs, kitchen sinks, drinking fountains and various replacement items such as faucets, showerheads, fittings and miscellaneous plumbers' goods. The heating line includes cast iron radiators and coal, oil and gas-burning boilers of varying types and sizes. The company is an important fabricator and distributor of steel pipe. Some of its miscellaneous products include pumps for wells, steam traps, steam and oil separators, pressure regulators, etc.

Unfortunately the valve, pipe and fittings business has been highly competitive in the past and excess producing capacity has at times resulted in heavy price-cutting. This has largely accounted for the Company's somewhat erratic earnings record. During the late 1920's business was good, and $4.37 per share was reported earned in 1929. But this dropped to 71c the following year, and the company was in the red for three years thereafter. Dividends on both common and preferred stocks were dropped in 1932 despite the strong working capital position (in 1932 the current ratio was about 9 to 1).

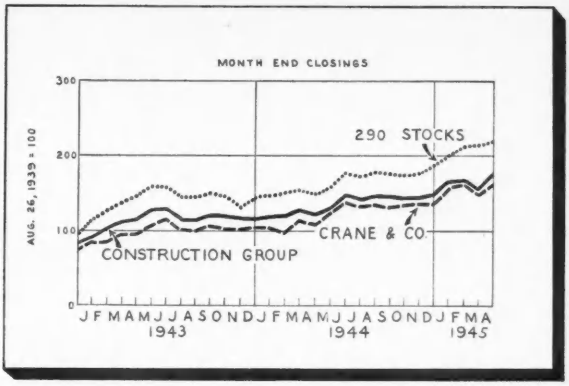
In 1934 the preferred dividend was barely earned but profits enjoyed a rapid comeback in the three following years, only to slump again in the depression year 1938. The preferred stock had a quick price comeback from 15 in 1933 to 140 in 1936 — it paid $22 in the latter year, clearing up a substantial part of the arrears. In 1937 the 7% preferred stock was refunded by a 5% issue, convertible currently (to June 15, 1947) into 1¾ shares of common stock, and regular dividends have been paid on this issue.

The present 2,348,628 shares of common stock have been outstanding since the 1920's. Dividend payments were omitted in the five years 1932-36 and again in 1938. $1.00 was paid in 1937, 60c in 1939, 80c in 1940 and $1.00 in 1941-43. Last year-end a 50c "special" was added, but the regular 25c quarterly rate remains unchanged.

As indicated in the accompanying table, Crane's wartime earnings have not been outstanding. Renegotiation of profits cut substantially into 1943 earnings, reducing the amount from $6,909,382 to $4,876,754 (the actual refund amounted to $9,906,-400, which was scaled down by tax savings to $2,032,628). Common stock earnings of $2.49 per share in 1944 did not make allowance for renegotiation, which cannot be determined for some months. However, the figures as stated in our table are before contingency reserves amounting to $1.70 a share in 1941, $1.92 in 1942, and $1.92 in 1943. In 1944, with an accumulated contingencies reserve of $13,000,000, (equivalent to $5.53 a share on the common) the charge was omitted. Actually, therefore, 1944 earnings were somewhat lower than in 1943.

Much of Crane's wartime earnings went back to the Government. Out of 1944 net profits amounting to $25,439,954, some $18,631,685 were paid out in Federal income and excess profits taxes, or nearly three-quarters. Excess profits taxes were equivalent to $6.85 a share. If the excess profits tax (85½% of applicable income, after crediting the postwar refund) are abolished after the war, with the tax rate dropping to 40% (income and surtax) Crane would, on the 1944 basis, increase its earnings by over $3.00 a share. This cushion together with the contingencies reserve of $5.53 a share should provide ample protection against reconversion costs, deferred maintenance and repairs, obsolescence, inventory and property losses, etc.

Contract termination losses may prove fairly heavy, because Crane is essentially a sub-contractor and thus lacks much of the protection which companies producing war goods directly for the Government obtain in the termination of war contracts. The company in 1943 wrote off its investment in a French subsidiary, amounting to $1,210,697; it is possible



that some of this can now be salvaged.

Crane's rather unimpressive earnings record seems due to the inflexibility of costs resulting from the heavy plant investment, and the large number of branch offices required to effect distribution of the company's products apparently add to this expense.

What is the postwar prospect for Crane? The outlook for the valve and pipe division seems less favorable than for the plumbing division. Productive capacity for valves and pipes has probably been further expanded during the war, and smaller producers have been able to strengthen their financial position, which may lead to a renewed competitive struggle in this field after the war, with price-cutting again making its appearance. Wartime activity in shipbuilding, machinery, steel, ordnance, synthetic rubber and aviation gasoline will decline after V-E day and still more after V-J day. Regular peacetime customers have also been engaged more or less in war activities, hence have been pretty well supplied with valves and fittings so that there may not be any big deferred demand from this source. The railroads, utilities and oil companies may be in the market for increased amounts, however. The automobile industry will probably not furnish a very big market. The best opportunities for new business in valves and related products would appear to be in plastics, electrical, textile, container, food and dairy, pulp and paper and related industries where expansion programs will be rapidly resumed after the war.

Pertinent Statistical Data

	1939	1940	1941	1942	1943	1944#
Sales ($ mill.)	75.542	88.477	137.900	171.740	166.611	152.479
Depreciation ($ mill.)	1.805	1.870	1.986	2.574	2.654	2.514
Balance for common ($ mill.)	3.480	4.170	2.763	3.860	3.912	5.844
Operating Margin	7.0%	8.5%	15.5%	19.9%	22.4%	16.9%
Net profit Margin	5.2%	5.8%	2.7%	2.8%	2.9%	4.4%
% earned on invested capital*	5.9%	7.6%	20.9%	31.4%	34.3%	24.3%
Earned on common, per share	$ 1.48	$ 1.78	$ 1.18	$ 1.64	$ 1.67	$ 2.49
Earned on common, % of market price	4.7%	5.7%	3.8%	5.2%	5.3%	8.0%
Dividend rate	$ 0.60	$ 0.80	$ 1.00	$ 1.00	$ 1.00	$ 1.50
Dividend yield	1.9%	2.5%	3.2%	3.2%	3.2%	4.8%
Current Asset value, per share	$23.12	$21.36	$26.74	$27.14	$30.37	$28.48
Book value, per share	29.64	29.57	31.45	34.01	37.07	37.21
Net current asset value, per share	19.68	17.36	19.42	21.75	25.03	24.55
Cash asset value, per share	6.23	2.65	4.50	5.17	9.52	11.47
Current Ratio	6.7	5.3	3.6	5.0	5.7	7.2

*Before provision for income taxes.
#1944 income data are before renegotiation.

The foreign business should boom. Crane is the leading plumbing and heating organization in Canada (it ranks third in U. S. after American Radiator and Kohler Co.) Reconstruction work in continental Europe should be limited only by the financial buying power of the devastated countries. England, in which Crane has plant facilities, should be in the market for substantial amounts of Crane plumbing equipment, and in lesser degree for valves and fittings, to replace facilities in bombed homes and factories.

President John H. Collier recently told stockholders: "We are

(*Please turn to page* 154)

What First Quarter Earnings Reports Reveal

BY RICHARD COLSTON

A GOOD many first quarter earnings reports have come to hand by now and while the picture is still far from complete, certain facts are beginning to stand out although interim reports of this nature often prove to be unreliable indices of what the rest of the year may bring in the way of corporate earnings. Thus for what it may be worth at this moment, it can be said that statements of some 200 good-sized corporations reveal slightly more gains than declines in net over the first quarter in 1944, and some rather sharp changes either way when compared with fourth quarter results.

Whatever the results may prove to be when the final tally is completed, the passage of a year does not appear to have much altered the overall stability of wartime net earnings, although in special instances important concerns surge forward or back in the race. These divergent results may be attributable to broad factors affecting different industrial groups, or they may reflect an infinite variation in company policies bearing on deductions from income for reserves, but generally speaking the current ups and downs of military demand are more volatile than was the case a year ago, thus importantly affecting interim statements for the better or worse.

Greater Changes Ahead

If generally improved first quarter net becomes a certainty, it will not be surprising in view of the step-up in military production which started last fall and carried through most of the first quarter period. On the other hand, cutbacks and cancellations of Government orders for many items, including certain types of planes, tanks, guns and other munitions have more recently interrupted many a production schedule, and this factor promises to become progressively acute as 1945 unfolds. The end of the war in Europe will throw earnings generally into a flux.

For these reasons, undue optimism over an indicated small gain in either group or individual company earnings compared with previous quarters should be subjected to cautious reservations. The many reported declines in net really provide more interesting study, as they are straws which are likely to show which way the winds of impending transition may blow. They should be viewed realistically because we are now approaching a period when wide swings in quarterly earnings will mark most corporate reports until peace-time production is well under way.

It is because management has since the outbreak of war been thinking along these same lines, formulating various policies to conserve resources for the strain of transition, that reported quarterly earnings have been almost impossible to appraise in their true light. Not only conservatism but necessity as well compels bookkeeping practices of wide variation in providing for taxes, depreciation and amortization. Add to this puzzle a sprinkling of liberal or niggardly reserves for unforeseen post-war contingencies and the final result as appearing in a quarterly report becomes a rather questionable index.

Where Government business importantly features company production, the spectre of renegotiation of contracts always may affect reported earnings, as no matter how carefully costs have been figured and how supposedly clear the price factor, months and perhaps a year may pass before a final determination radically alters original estimates; and when refunds do become imperative, some concerns charge them to previously set-up reserves, some to profit

Companies Showing Earnings Gains Over Last Year

	NET PER SHARE		
	First Quarter 1945	First Quarter 1944	Last Quarter 1944
Artloom	.10	.01	.19
Blaw-Knox	.55	.31	.59
Butler Bros.	.25	.19	.42
Commercial Solvents	.28	.21	.21
Climax Molybdenum	1.22	.63	.94
Freeport Sulphur	1.01	.75	.84
Minneapolis Honeywell	.64	.55	.71
Symington-Gould	.28	loss	.65
Texas Gulf Sulphur	.64	.50	.68
United Biscuit	.71	.58	N.A.
Amer. Smelting & Ref.	1.06	.96	N.A.
Bridgeport Brass	.52	.31	.50
Loose Wiles	1.12	.96	1.89
Marshall Field	.57	.41	.32
Sharon Steel	.58	.23	1.33
Youngstown Sheet & T.	1.04	.85	1.49
Amer. Brake Shoe	.71	.60	.94
Bayuk Cigars	.86	.80	.82
Colorado Fuel & Iron	1.40	1.17	1.08
Acme Steel	1.79	1.28	2.07
Caterpillar Tractor	1.12	1.00	1.12
General Electric	.41	.36	.66
National Tea	.32	.04	.98
Corn Products	.70	.50	1.06
Jones & Laughlin	.80	.61	.81
Phillips Petroleum	1.86	.76	1.21
Studebaker	.44	.35	.47
Texas Co.	1.09	1.06	1.39
American Radiator & SS	.12	.10	.34
Bethlehem Steel	2.03	1.61	4.94
Transcon. & Western Airl.	.52	d.11	.77
Nash Kelvinator	.12	.11	.12
U. S. Hoffman Mchy.	.53	.37	.55

d—deficit N.A.—not available

and loss account, others against current quarterly earnings, and still others spread the charge out. Comparative earnings thus suffer in the factor of dependability, in the light of future revisions which may become essential.

In comparing quarterly earnings from now on with those of last year, distortion will be augmented by the partial or complete elimination of reserve provisions of one kind or another, as evidence is appearing that many strong concerns now consider reserve accumulation adequate for the purposes intended. In the past, amortization of defense facilities during a five rather than the customary twenty year period has been considerably distorting comparative earnings statements. Conversely, where such facilities were provided early in the war, complete amortization will have occurred in another year or so, thus providing an interesting cushion for postwar earnings.

Tax Adjustments

Varying taxes and complicated adjustments to satisfy carry-forward and carry-back privileges add a final cloud to comparative figures, as they naturally slice or bolster final net earnings as reported for different periods. As EPT credits may be applied to any quarterly statement issued during the year, an understanding of just how net earnings were determined is further handicapped, for the amounts disclosed could easily have been swollen by these postwar credits. Adjustments to offset over-conservative allowances for tax liabilities of previous years often inflate earnings figures, or on the other hand they might have been reduced by non-recurring charges difficult to detect. The impacts of EPT of course have remarkably stabilized net earnings during war years, but the full extent of its force can never be reckoned until a full year's earnings are determinable. Reserves for taxes, therefore, as conscientiously set up in different quarters, are subject to progressive adjustments in following months and here policy varies widely. In some instances, over-caution expresses itself in the first quarter of the year, as is indicated by the generally lower net reported in this special period. Other concerns, in contrast, prefer to slide along comfortably from quarter to quarter, deferring major consideration of tax and other adjustments until the last quarter.

The accompanying tables present a list of concerns which have reported net earnings for the first quarter of 1945, and for comparative purposes net earnings for both the first and last quarters of 1944 are shown. Gains and declines in earnings — as against the same period last year — are listed separately; superficially, the relative gains of some concerns and declines of others might be considered as trends, but for the reasons already outlined such assumptions should be very carefully weighed. Even casual inspection of the lists will reveal the predominant policy of showing large earnings in the final quarter of a year and relatively conservative ones in the first three months. About 60% of all the concerns listed show such a trend, but that does not necessarily indicate that volume has declined or profit margins narrowed to the extent which would appear from the figures indicated.

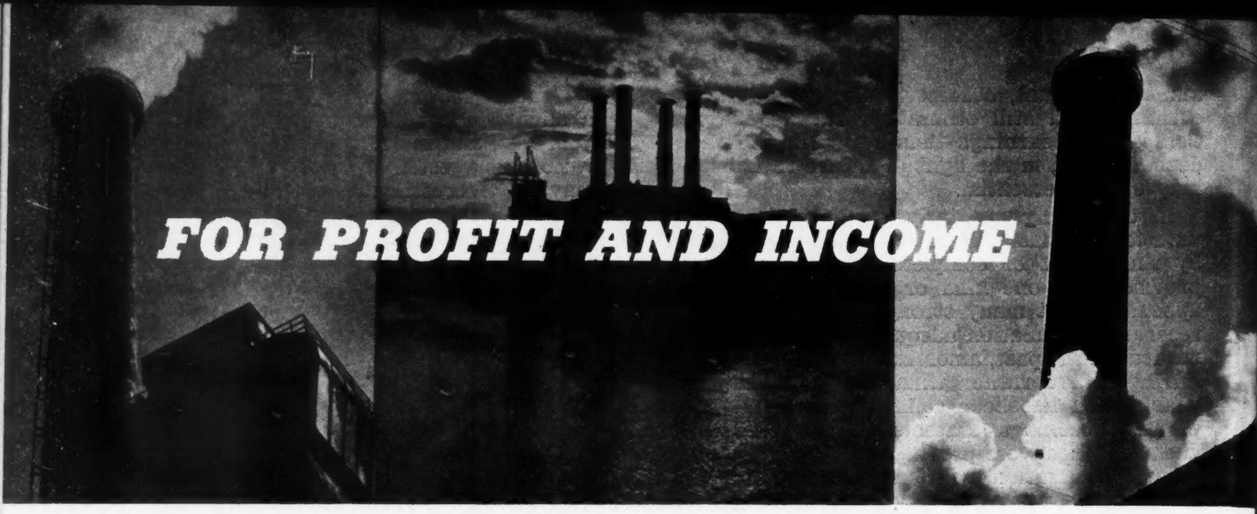
General Motors is among the concerns showing a slight decline in reported net compared with a year ago, and in view of the many analytical reservations suggested a brief study of its statement may be interesting. The small decline in net per share to 84 cents against 88 cents earned in 1944 is insignificant, amounting to only $1¾ million. In arriving at net, however, deductions of $17 million, to cover possible renegotiation liabilities contrast with $34 million similar reserves set up in the 1944 quarter. A $108 million decline in sales during the comparable period permitted a reduction in tax liabilities to the extent of $7 million in the 1945 quarter, although in both years taxes were partially offset by some $4 million postwar credits. Relative reserves for depreciation and amortization of defense facilities rose by $1.2 million in 1945, a sum almost equal to the dip in net earnings, but total reserves for contingencies and other purposes declined by half a million. More indicative of trend, sales declined 10% while cost of sales declined only 8% and expenses rose 18%, thus reflecting the increasing cost-price squeeze on profit margins. Finally and to provide an optimistic note to this typical bookkeeping complexity, General Motors stockholders, while witnessing a 4 cents per share decline in relative earnings compared with a year ago, should note that earned surplus rose by $27 million equal to about 60 cents per share.

United States Steel also reports a drop in net for the first quarter of 1945 as against a year ago, although compared with the final quarter of 1944 an improvement of al- *(Please turn to page 160)*

Companies Showing Declining Earnings

	NET PER SHARE First Quarter 1945	NET PER SHARE First Quarter 1944	Last Quarter 1944
Air Reduction	.52	.53	.59
Borg Warner	.78	.91	.95
Checker Cab	.18	1.39	d.61
Clark Equipment	2.08	3.01	1.21
Plymouth Oil	.48	.51	.58
Savage Arms	.25	.27	.22
United Drug	.36	.39	.56
Inland Steel	1.51	1.54	1.58
Superior Steel	.59	1.09	.68
Coty, Inc.	.63	.67	N.A.
Crown Cork & Seal	.71	.75	1.00
Beechnut Packing	1.25	1.46	1.43
Houdaille Hershey	.35	.40	.17
McKesson & Robbins	.57	.68	.61
Motor Products	.45	.54	.41
U. S. Steel	1.04	1.23	.54
N. Y. Airbrake	.74	.79	.49
Libbey-Owens-Ford	.75	.95	.72
Aviation Corp.	.17	.25	d.01
Columbia Broadcasting	.66	68	.74
Flintkote	.28	.39	.29
Atlantic Refining	96	1.51	1.49
Westinghouse Airbrake	.34	.41	.38
Buffalo Forge	.76	.86	.63
Chesapeake & Ohio	.87	.90	.83
Continental Steel	.76	.78	.33
Kimberly-Clark	.98	1.14	.15
Best Foods	.40	.58	.38
Continental Baking	.16	.27	.17
Master Electric	.49	.72	1.02
Pacific Mills	.95	1.14	1.39
Rustless Iron & Steel	.46	.56	.45
Westinghouse Electric	1.25	1.43	2.90
General Motors	.84	.88	1.00
National Cash Register	.35	.52	.52

d—deficit N.A.—not available



High-Speed Motors

There are speed limits for automobiles — but not for automobile stocks. In every upward thrust of the bull market the motors have either been out front or well up with the leaders. Lest you forget, here are the **percentage** advances from 1942 lows to recent highs: General Motors 130, Chrysler 154, Studebaker 680, Hudson 866, Nash-Kelvinator 541, Graham-Paige 1266, Willys-Overland 1430. The more speculative they are, the greater the rise—until they also set the pace in decline. From a different perspective, here are recent prices expressed as percentage of 1936-1937 bull market highs: General Motors 90, Chrysler 81, Hudson 121, Studebaker 145, Nash-Kelvinator 108, Graham-Paige 150, Willys-Overland 381. There are rumors of a coming split in Chrysler, but recent exceptional rise in this stock **could** be because, on actual earnings potentials, it is the cheapest in the group.

Tax Shelter

An extreme example of the sheltered tax position enjoyed by oil companies is provided by the annual report of Gulf Oil. This company paid 1944 Federal income taxes of approximately $12 million and had net income approximating $42 million. Thus, the tax equalled only 22 per cent of pre-tax earnings. Many industrials are subject to effective tax rates of 70 per cent or even more. But the lower the rate, the less the "cushion." When Gulf's earnings decline, every $1 of shrinkage in pre-tax net will mean about 78 cents decline in net profit. For many industrials, the same decline in pre-tax income would reduce per share profit only about one-third as much. Gulf earned a handsome $4.64 a share last year. In the pre-war year 1939 it netted only $1.69 a share, and highest figure, since 1929, was $3.51 in 1937.

Safe Yields

Despite the much talked about "pressure of idle funds seeking investment," current dividend yields of around 5% or a bit better can still be had from stocks like American Telephone, Beatrice Creamery, First National Stores, Freeport Sulphur, Household Finance, Loew's and Pacific Gas & Electric. Counting only the $3 regular dividend — since 50 cents extra may or may not be paid again this year — Chesapeake & Ohio yields nearly 6%. Are these yields safe, Well, they're not guaranteed; but to this department they look quite safe for the foreseeable future.

Building Stocks

Since the expected post-war building activity will take some time to get into full swing, some analysts argue that the building materials stocks have discounted the promise of the future too far ahead. Well, difference of opinion makes the market what it is. It can be argued that long before private construction is active, the restocking of dealers will provide most building supply makers with good business. The building stock group, unlike automotive issues, is well under its 1936-1937 high. In most of these stocks this year's percentage rise to date has been moderate and non-spectacular. If the bull market pot is to be kept boiling, it would not be surprising to see building equities come in for greater attention. Among speculative issues, there is probably considerable potential — for the long pull — in Celotex and Flintkote. Among the better-grade issues, Lone Star Cement offers good value, and probably is cheaper on actual dividend potential than such favorites as Johns-Manville or United States Gypsum.

Old-Timer

The Lehigh Coal & Navigation Company broke into the news recently with the announcement that it would sell, in an off-the-market distribution, 600,000 of its 700,000 shares of National Power & Light common stock. There was a time when it would have fetched much more money than it will now. But it will probably bring around $5,500,000, with which Lehigh can retire some debt — and by the sale Lehigh can also escape coming within SEC jurisdiction under the utility holding company act. Formed 123 years ago, Lehigh was originally a canal company. It still has a little canal revenue: about $35,000 having been shown from this source in the latest annual report. The biggest income long has been from rental of owned rail mileage to the Central Railroad of New Jersey. The latter is bankrupt, but the receivers continue to pay Lehigh around $2,300,000 a year. Remaining income, over $1,000,000, comes from anthracite coal-mining subsidiaries, whose peacetime pros-

pect is not by any means glowing. Lehigh has paid continuous dividends for the last 64 years; but sometimes, just to keep the record straight, the payment has been as little as a dime a share a year, against $1 paid last year. At recent price over 14, this old-timer lacks appeal.

Diversification

Product diversification has become quite the rage throughout many manufacturing industries. However, we can think of two managements which probably smile a bit when they read in the newspapers that this or that company plans to add maybe a couple of new items to its lines after the war. They are the managers of Scovill Manufacturing and of Art Metal Works. The former's "line" embraces over 15,000 items, the latter's over 12,000. Scovill's origins are almost prehistoric, but it has paid dividends since 1856. The stock is on the Curb Exchange and quite inactive. Art Metal, on the Big Board but rarely an active stock, dates from 1928, dividends from 1934.

Byron Jackson

Byron Jackson makes oil field tools and equipment, and industrial pumping equipment. Some call it "a California company" but business is national, also international. The management has spent considerable money on expansion of facilities, believing post-war sales and earnings prospects are excellent. War-time earnings ($1.78 last year) are not inflated. Profits exceeded $3 a share in 1936 and 1937, and dividends were double the present $1.25 rate. On the small capitalization (378,680 shares) it shouldn't be too hard to better those figures, in time. Around 26, this stock looks like an "interesting" speculation, if one is willing to stay with it for a goodly stretch.

Dividends

For what it might be worth, restoration of the **average** dividends of 1936-1939 — not the highest pre-war rates — would mean increase of 50 per cent in the present Woolworth dividend, 41 per cent for Glidden, 156 per cent for Continental Can, 72 per cent for Commercial Investment Trust, 53 per cent for Timken Roller Bearing and 78 per cent for Lone Star Cement. Whether or not up to these figures, all look like logical candidates for substantially higher post-war dividends.

Earth Movers

American Machinery can almost move heaven and earth — anyway, plenty of earth. It was recently stated that the war had created an $8 billion deficit in highway construction, not counting huge foreign needs; and that this promises five years of high activity for makers of earth-moving and other construction machinery. We couldn't prove that, or disprove it. But if so, companies that will get a goodly share include Ingersoll-Rand, Caterpillar Tractor, Le Tourneau and Bucyrus-Erie.

STOCKS ACTING EXCEPTIONALLY WELL IN RECENT SESSIONS:

Chrysler	Lone Star Cem.
Allied Stores	Mack Trucks
Gimbel Bros.	Marsh. Field
Allis-Chal.	Nat. Distillers
Am. Tobacco	Nat. Lead
Borden	Philco
Budd Wheel	Pullman
Butler Bros.	Unit. Drug
Conti. Can	Unit. Fruit
Deere	Wheel. Steel
Fed. Mogul	Wrigley
Inger. Rand	U. S. Steel
Int. Harvester	Studebaker
Mohawk Carp.	Raybestos Man.

Fairbanks, Morse

Non-war business of Fairbanks, Morse is officially stated to be running 40 per cent above the highest previous year in the company's history. War orders are tapering off and apparently will not be greatly missed. Sales are about 400 per cent above the 1937 level, share profits only about 22 per cent higher.

Prediction?

General Electric's President Charles E. Wilson, after noting war-time increase in volume from $300 million to $1 billion, said recently to stockholders: "In my considered opinion, that billion-dollar growth is no temporary phenomenon, but represents in large part real industrial muscle power." Is that a forecast that GE will keep on doing a billion-dollar business? It sounds that way. But it's mighty hard to get a dynamic increase in share earnings, even if volume is much bigger than before the war, for taxes will also be much bigger than before the war and there are not far from 29,000,000 shares of stock outstanding.

Eureka Vacuum Cleaner

This company registered 122,500 new shares with the SEC. Proceeds of the sale will be used to pay for shares of Williams Oil-O-Matic Heating Corporation to be purchased by Eureka in connection with the proposed merger of the two companies. Eureka will be the continuing corporation. The consummation of the plan is contingent upon the purchase by Eureka from Walter W. Williams of 245,000 shares of Williams Oil-O-Matic common for $1,386,700, and the purchase of such other shares as have been deposited by other stockholders of Williams for sale at $5.16 per share. With this acquisition, the postwar potential of Eureka to profit from the expected boom in consumer durable goods should be enhanced. Likewise, the product diversification resulting from the acquisition should tend to modify cyclical fluctuations of future demand from which Eureka has suffered in the past in common with other makers of vacuum cleaners.

Tax Refunds

One of the earliest tax changes probably will be to make excess profits tax postwar refunds cashable within a fairly short time after the end of the European war. The amount is, of course, 10% of the EPT paid during the war years and is now represented, among other corporate assets, by non-marketable bonds which pay no interest and on which nothing can be borrowed. Some companies have large refunds coming to them in this fashion. A special article in our next issue will explore the situation in detail. Of course there is nothing in the law that says that money thus realized must be paid out in dividends. Thus how much such refunds might benefit stockholders is difficult to guess. To the big fellow, well bolstered with liquid assets, the refunds may be of no great import. But it's a different story with many smaller businesses whose working capital position will be materially strengthened by these refunds.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: The largest gain in the bond market the past two weeks has been in the defaulted rail lien average which was up 3.38 points, whereas second grade railroad bonds gained .59 and the Dow-Jones average for forty bonds rose only .08.

Municipals were firm at their best prices in history, although trading was quiet. The Dow-Jones yield index of 20 representative state and city issues, moving inversely to price, receded two basis points to 1.49%, a new record low.

In the foreign list, Greek and Serb bonds receded but Brazil 3¾'s issues were stronger selling at a new high for the year.

GULF MOBILE & OHIO — CHICAGO & ALTON R.R.: An agreement whereby the Gulf Mobile & Ohio R.R. will acquire the properties of the Chicago & Alton R.R. which has been in bankruptcy since 1942 has been reached according to a recent announcement. Under the terms of the acquisition, owners of the $45,350,000 outstanding Chicago & Alton 3% bonds, sole funded debt of that railroad, will receive $22,675,000 new 4% income bonds of the Gulf Mobile & Ohio and 328,787½ shares of Gulf Mobile & Ohio common stock, the equivalent of $500 of income bonds and 7¼ common shares for each $1,000 par value of Chicago & Alton bonds. The income bonds are to be dated January 1, 1945 and are to mature January 1, 2044. In all other respect, the bonds will be identical with the $6,025,800 Gulf Mobile & Ohio 5% general mortgage income bonds due 2015, outstanding on December 31, 1944. The agreement is subject to approval by the Chicago & Alton bondholders, the U. S. District Court for the Northern District of Illinois, the Interstate Commerce Commission, various state regulatory bodies, and the Board of Directors of Stockholders of the Gulf Mobile & Ohio R.R.

MELVILLE SHOE PREFERRED STOCK: Stockholders of this company have approved the preferred stock reclassification plan, by which holders of the preferred stock will retain this stock but the annual dividend rate will be reduced from 5% to 4% as of May 1st.

HERCULES POWDER CO.: Stockholders will vote on June 22nd on a proposal to reduce the dividend rate on the preferred stock from 6% to 5%, effective February 15th, 1946. Approval of 75% of the senior shareholders and a majority of common stockholders is necessary for passage of the plan, which would prohibit calling of the preferred stock before November 15, 1950.

ABITIBI POWER & PAPER CO.: Distribution of $2,078,860 in Canadian funds to bondholders of the Abitibi Power & Paper Co. will be made on June 1st, pursuant to order of the Ontario Supreme Court. The payment will be on account of principal and at the rate of $43.07 per $1,000 bond and $21.53 per $500 bond. Holders of the first mortgage 5% bonds, series A, due 1953, and holders of certificates of deposit are entitled to share in the distribution. This represents the fifth distribution on the bonds and it will be made by the Montreal Trust Company.

LEGAL FOR SAVINGS BANKS IN NEW YORK STATE: Securities in the total amount of $294,821,600 have been added to the list legal for investment by savings banks in New York. The additions include National Dairy Products debenture 3s, due 1960, Chicago & Northwestern 3s, due 1989, Chicago & Northwestern Railway Equipment Trust Certificates due 1945-54, Houston Lighting & Power Co. 1st mortgage 2⅞s due 1974, Erie R.R., Ohio Division, 1st 3¼s due 1971, Erie R.R. Chicago & Erie 1st 5s due 1982, Erie R.R. 1st consolidated series B 4s due 1995, Erie R.R. 1st consolidated series E 3¼s due 1964 and Erie R.R. Collateral Trust notes due serially to March 15, 1953.

LEHIGH PORTLAND CEMENT CO.: This company has called for redemption on June 1, 1945, all of its outstanding 4% cumulative convertible preferred stock at $110 plus dividends accrued or in arrears thereon, making an aggregate redemption price of $110.69. After June 1st, all dividends on the preferred stock shall cease to accrue and all rights to the holders thereof as stockholders of the company, except the right to receive the redemption price shall cease.

Until May 21st, each share of preferred stock is convertible into four shares of common.

Bonds Called for Redemption

	Amount Called	Call Price	Redemption Date
American Gas & Electric s.f. Deb. 2¾s 1950	$1,020,000	101½	May 21
American Gas & Electric s.f. Deb. 3½s 1960	1,020,000	103	May 21
American Gas & Electric s.f. Deb. 3¾s 1970	1,020,000	103⅜	May 21
Autocar Bldg. (Wilfong, J. K.) gen. 6s 1952	Entire issue	100	May 1
Boston, Worcester & N. Y. St. Rwy. inc. reorg. 5/47	Entire issue	100	May 15
Central Vermont Pub. Serv. 1st B 3½s 1966	Entire issue	105	May 14
Food Machinery Corps. s.f. Deb. 3s 1956	Entire issue	101	May 31
Montana-Dakota Utilities Co. 1st 3½s 1961 and 1st serial 3½s 1946-49	Entire issue	105½	May 18
Montana-Dakota Utilities Co. 1st 3½s 1961 and 1st serial 3½s 1946-49	Entire issue	101½	May 18
Montana-Dakota Utilities Co. 1st 3½s 1962 and 1st serial 2½s 1946-50	Entire issue	106	May 18
Montana-Dakota Utilities Co. 1st 3½s 1962 and 1st serial 2½s 1946-50	Entire issue	101¼	May 18
New York Power & Light Corp 1st 3¾s 1964	Entire issue	107¼	May 18
School Sisters of Notre Dame (Milwaukee) 1st serial bonds 1940	Entire issue	101½	May 15
Houston Electric Co. 1st & ref. A 5s 1960	Entire issue	103	May 16
Pere Marquette Rwy 1st "A" 4s 1956	Entire issue	105	May 11
Pere Marquette Rwy 1st "B" 4s 1956	Entire issue	100	May 11
Pere Marquette Rwy Series "C" 4½s 1980	Entire issue	105	May 11
Revere Copper & Brass 1st s.f. 3¼s 1960	195,000	102½	May 15

Keeping Abreast of Industrial and Company Changes

Jet-propelled planes rivalling the speed of sound, like LOCKHEED'S new "Shooting Star", generate such heat that without the use of extraordinary alloys, the metal in their exhaust systems would rapidly disintegrate.

But SOLAR AIRCRAFT COMPANY's fifteen years experience with hot gas problems has evolved the right solution, leading to their selection to make vital parts for the jet racers in the form of readily replaceable units.

Purchase at auction of 6150 shares of WINTHROP CHEMICAL CO., class B stock by STERLING DRUG INC. for $9.5 million from the Alien Enemy Custodian now gives Winthrop 100% ownership of this concern.

Recent delivery of 30 aluminum freight cars to three railroads by a REYNOLDS METALS subsidiary is the first of its kind in history. The cars are of aluminum alloy from the floor up, save 9000 pounds in weight, and lower the center of gravity.

Stockholders of U. S. PLYWOOD CORPORATION have approved a two for one split-up in the common shares, voting to increase the authorized stock from 350,000 shares to 1.5 million, of which 100,000 shares will be offered for public distribution.

Rumors persist of a pending merger of WICKWIRE STEEL CO. with COLORADO FUEL & IRON CORP., causing certain stockholders of the former to protest loudly bylaw changes which might facilitate the move. Allen & Co., who recently bought C. F. & I., favor the changes but deny the motive.

Dame rumor is also bothering GENERAL ELECTRIC CO., obliging it to deny reported intentions to establish a new merchandising policy. Just because G. E. has added J. C. Penney Co. and United Drug Co. to its distributors of heating pads and alarm clocks signifies no change in its regular policies at all.

Rapidly growing popularity of the soy bean again is shown by a war-developed soy bean oil to be placed on the market by SPENCER KELLOG & SONS, as a substitute for linseed oil used in paints. A similar substitute for castor oil will also feature their postwar offerings.

U. S. INDUSTRIAL CHEMICALS, INC. expects its new product, PiB, to bolster considerably postwar sales. This material insulates motors and machinery from water and dampness, thus protecting them from rust, and is effective in stopping battery leaks.

Servicing of motorists by automobile manufacturers has not been overlooked in scanning potentials of the Burma and Ledo Roads, where CHRYSLER EXPORT CORPORATION is already installing a network of repair and service stations.

While most makers of aircraft look ahead with some worry over present huge plant capacity, RYAN AERONAUTICAL CO. is just starting its first major expansion program, including an outlay of nearly $2 million for plants and machinery.

To expand sales of postwar prefabricated houses, GUNNISON HOMES, INC., plans to set up ten plants throughout the country when conditions permit. Capital is its minor worry, as the concern is a subsidiary of "Big Steel". At its Indiana headquarters, Gunnison can turn out a complete house very twenty five minutes by the use of special plywood.

Utilization of waste products may prove a profitable venture for BLAW-KNOX Co., as PACKAGE MACHINERY CO. is producing for it a new device which will wrap up to 24 packages of coal dust, 7 1/2 pounds each, per minute.

Turning from guns and machines for war, DRAPER CORORATION, Hopesdale, Mass. is one of the first large concerns in that area to achieve 100% reconversion to its normal output.

Prewar imports of synthetic rubies and saphires for bearings probably have ceased for good. UNION CARBIDE & CARBON CO. is now successfully producing these items, second only to diamonds in hardness, and of which 4000 are used in a single battleship.

The prospective boom in automobiles has lead FISHER BODY CO. to plan a large new stamping plant for postwar construction in Hamilton, Ohio, where they have bought 145 acres. 3000 employees will be needed in this 1,200,000 square feet all on one floor factory.

No let-up in the demand for special new airplane engines has caused Washington to authorize construction of a new $6 1/2 million plant in Schenectady by GENERAL ELECTRIC CO.

Completion of a $7 million DU PONT-operated plant for the manufacture of neoprene is the fifth of its kind rushed along to provide this form of synthetic rubber. The material is outstanding in its resistance to oils, acids, flame and sunlight, and is widely used for balloons, life rafts, gaskets and jacketing for wire and machine parts.

Stockholders of GRAHAM-PAIGE MOTORS CORP. have approved a new $5 million financing plan, and authorized capital will be increased by 1 million additional shares of common and 300,000 shares of new 5% convertible $25 par preferred. Of the latter, Allen and Co. have bought 200,000 shares for public distribution.

Re-establishment of foreign business is actively planned by SOCONY-VACUUM OIL CO., well in keeping with its 50 year experience in markets abroad. Plants damaged by the Nazis in Naples, England and France will be rebuilt or repaired. Full operations have been restored in Britain, Portugal, Africa and the near-East. In 1944 the company delivered over 37 million gallons of gasoline to army airfields in Africa.

Lack of expert darners in the Armed Services has boomed business for the hosiery manufacturers throughout the country, and the end is not yet in sight. To date since Pearl Harbor, the Government has purchased 750,000,000 pairs of socks for soldiers, sailers and marines.

Topping a list of stable dividend payers compiled by the New York Curb Exchange is PEPERELL MANUFACTURING CO. whose unbroken dividend record has been maintained for ninety-three years.

War-stimulated improvement in nonfriction bearings spells good postwar business for NEW DEPARTURE DIVISION of GENERAL MOTORS. This concern now makes more than 18,000 types and sizes of ball bearings, some so small that a thimble would hold 3000. The company expects to retain a majority of its war workers to meet increased postwar demand.

By the sale of 150,000 shares of REVERE COPPER AND BRASS CO. by GENERAL CABLE CORPORATION for public distribution, the latter concern's former 21.46% interest in Revere will be reduced to 9.80%.

That the nation is getting more and more oatmeal-conscious is indicated by the huge purchases of this grain by QUAKER OATS. This concern now buys more than 40 million bushels of oats annually, equal to about 4% of the crop produced.

1945 capital requirements of STANDARD OIL CO. (INDIANA) amounting to $100 million raise total figures for such outlays over a three year period to about $287 million. The need of additional refineries to produce 100 octane gasoline accounts largely for the current year's expenditures.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Naval Officer's Wife Seeks Investment Counsel

My husband has been a subscriber to your magazine for several years and we have profited thereby. However, he is now a lieutenant (j.g.) in the Navy on a ship in the Southwest Pacific and I have the responsibility of looking after our investments. I have just sold 55 shares of Briggs Mfg. Co. at 40⅝. The average price at which we bought them in 1942 was 19 plus. So we made a sizable profit, plus the dividend of $2.00 a year. I wish to reinvest this money (and possibly a little more) so that we can gradually build up our capital. I have been forwarding your magazine air mail, at my husband's request, after reading it thoroughly myself. But the time lag is too great for him to do more than suggest stocks for me to watch with an eye to purchase at an opportune moment. The three stocks which appeal to him at the moment are:—

Kimberly Clark
Glidden Co.
Libby McNeill & Libby

Do you recommend these or any one of them at this time? Are they over-priced at present, and if so, what do you consider a fair price for them?

We can leave the money in the bank until a more opportune moment if that is advisable.

Thanking you for any help you can give me, I am.

—A. W., Atlantic Highland, N. J.

Kimberly Clark: This is a leading integrated book and paper specialty producer, with timber properties and mills in the United States and Canada.

This company is probably the second largest maker of book paper. The wadding and specialty division manufactures Kotex and Kleenex sold by International Cellucotton Products Company, on an exclusive long term contract.

Earnings for 1944 amounted to $3.09 a share, subject to renegotiation, compared to $3.69 in 1943, $3.25 in 1942 and $4.72 in 1941. Dividends are expected to continue at the $2.00 annual rate.

Postwar prospects are excellent for company's regular products and new products.

Glidden Company: The company's business consists of four principal divisions: (1) paint and varnish, (2) chemicals and pigment, (3) food products and (4) soya products.

Glidden reported a sales record in the fiscal year ended October 31, 1944 when sales totaled $111,897,114. The company has set successive sales records in each of the past four years, starting with 68.9 million in 1941. After all charges, including $2,285,000 in taxes, 1944 net was $2,117,288 equivalent to $2.02 a share, exceeding all other years since 1937. With 4.2 million in cash and cash items, the company's current assets stood at 35,258,680 dollars, against 9,789,953 dollars of current liabilities, or a net working capital of $25,468,728 dollars and a ratio of assets against liabilities of 3.6 to 1, as of October 1, 1944. Dividends paid in 1944 amounted to 90 cents a share and may be increased this year.

The postwar outlook for this company is bright as there is a large deferred demand for paints and the company has developed new, interesting products.

Libby McNeill & Libby: This company is one of the most diversified of the food companies. Earnings for the fiscal year ended February 28, 1945 were probably moderately below the 94 cents a share of the previous year. Dividends paid last year amounted to 50 cents a share.

Postwar sales and earnings will be affected by intense competition, accordingly this stock has only average attraction.

Kimberly Clark and Glidden Company are attractive on a reaction in the market.

National Tea

I purchased as a pure speculation on March 5, 100 shares of National Tea for $20.75.

Since Mr. W. F. Cuneo has secured controlling interest of this company I feel the stock has added attraction.

Will appreciate if our opinion regarding appreciation possibilities for this stock over a period of a year to eighteen months.

Am willing to hold this stock for two years.

—A. W. H., Durham, N. C.

As a large number of unprofitable stores have been eliminated, gross margins should widen, and despite increased labor costs, a good gain in operating income is indicated. Earnings for 1944 rose sharply to $1.59 a share from 44 cents in 1943.

The new elected Board of Directors voted to retire the entire issue of 5½% cumulative preferred stock on May 1st, 1945. Directors did not disclose how this reduction would be effected, although the financial setup in the future is likely to include a new preferred issue and some funded debt as addition of capital is sought for expansion purposes. This issue appears to have average appreciation possibilities.

(*Please turn to page* 168)

Investment Audit of Crane Company

(*Continued from page* 145)

quite optimistic about the prospects in the immediate postwar period. We believe there will be a considerable demand for the shipment of our products abroad for the rehabilitation of distressed areas. In fact, some of this business is already beginning to appear. Crane Co. in Canada, England and France will participate in this demand."

Mr. Collier stated that sales for the first half of 1945 would approximate those for the same period of 1944 but beyond that time volume would depend upon the speed with which the Government permits conversion to production of civilian goods. Crane's backlog of unfilled orders, said Mr. Collier, "while less than it has been, is still sizeable and contains a minimum of cancellable possibilities."

The outlook for the plumbing and heating divisions in the United States should also be rosy. The anticipated postwar building boom should create a heavy demand for the company's line of residential plumbing and heating equipment. New styling and other improvements are expected to keep Crane designs "in the vanguard of public esteem."

Crane will enter the postwar period in very sound financial position. The company has always maintained heavy cash reserves, and these have been further bolstered during war-time. At the end of 1944 current assets amounted to $66,892,086 including cash assets of nearly $27,000,000. Current liabilities were only $9,243,082.

The original issue of $10,500,000 2¼% debentures has been reduced to $2,000,000 and the remaining amount will probably be retired during 1945. Thus, net current assets minus bonds and preferred stock would provide a "quick" equity of over $36,000,000 or in excess of $15 a share on the common stock. This is in addition to the investment in U. S. plant carried at $36,950,523 (after very substantial allowance for depreciation) and the foreign investment carried at $12,000,000.

It is difficult to forecast the future earning power because of the uncertain outlook for the valve division and other heavy products, as contrasted with the very favorable outlook for plumbing ware both at home and abroad. However, it appears likely that the latter should more than outweigh the former and that share earnings on the common stock should improve, particularly if relief is obtained from the heavy excess profits tax burden. Profit margins have undoubtedly been low on military products, judging from the heavy refunds made to the Government under contract renegotiations. To the extent that this business can be replaced with production of profitable plumbing ware, a substantial backlog of profits should be built up to absorb any competitive losses on heavy lines. At the end of 1944, inventories amounted to $25,573,678; total reserves come to more than half this amount.

The common stock has in the past been appraised fairly liberally in relation to earnings, because of the company's long record of sound management and the excellent financial position. At the current price of around 30⅜ (range this year is high 31⅝, low 25¾), the stock yields a little under 5% (based on last year's $1.50 dividend) and is selling at about 12½ times the 1944 earnings. While the present price level is the highest since 1939, it compares with approximate highs of 38 in 1939, 42 in 1938, and 56 in 1937, when share earnings averaged below recent levels. With the general market currently at about the highest levels since 1937, Crane would seem to be somewhat out of line. Postwar appreciation possibilities would thus appear to be above average.

What of the Postwar Position of the Pharmaceutical Industry

(*Continued from page* 143)

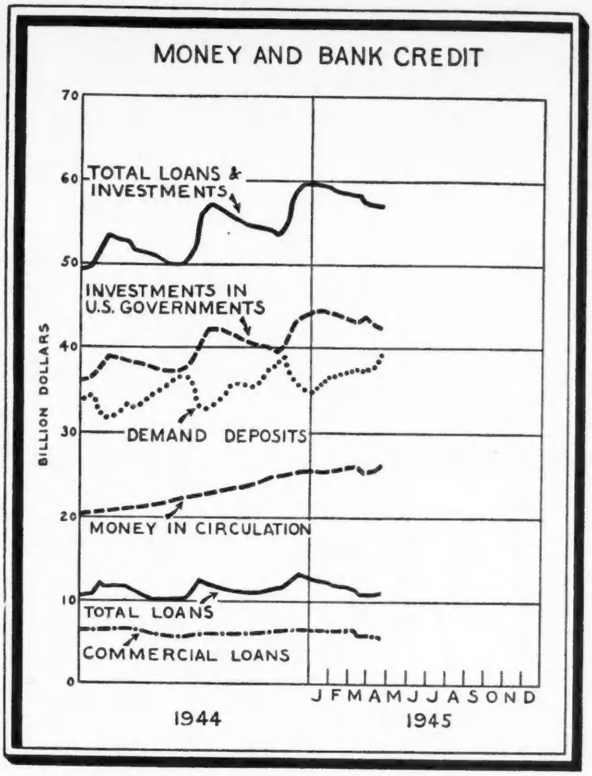
American Home Products plans to spend some $15 million for additional facilities in postwar years.

The third largest producer of proprietary drug products is Bristol Myers, widely known for its Sal Hepatica, Ipana Tooth Paste, Vitalis and Rubberset brushes. During the last decade sales of this strongly entrenched concern have risen from about $8 million to a peak of $34.4 million in 1944. Except for a brief setback in 1938 this growh has been consistent from year to year, and applies as well to the record of net earnings which in every year since 1932 have exceeded $3 per share. Somewhat greater retention of earnings to handle rapidly expanding volume has slightly reduced distributions to stockholders during war years, the current rate being 50 cents quarterly per share compared with average annual payments of about $2.50 in the 1936-40 period. In common with numerous equities in the drug group, Bristol Myers is selling at peak prices in the current market, with a yield of 3.7% at 55. Taxes in 1944 took a heavy toll on pretax net, absorbing $5.9 million of $8.3 million but still leaving $2.4 million for the company. Tax relief in postwar years and anticipation of well sustained volume after a brief transition period should make possible long-term earnings expansion, further strengthening the stock's semi-investment status.

Sterling Drug, formerly Sterling Products, ranks as the leading manufacturer and distributor of proprietary drugs and household remedies, its output including Phillips milk of magnesia, Dr. Lyon's tooth powder, Fletcher's Castoria, Diamond Dyes and Cascarets. Volume of this strong concern has shown steady improvement in every year since 1933, rising from $24.2 million in that year to over $68 million in 1944. During the prewar years, net earnings consistently averaged close to $9 million annually, declining under the impact of war taxation to $7.1 million in 1942, but rising to $7.8 million in 1943 and further improving to $8.1 million in 1944. Recent purchase of Winthrop Chemical shares from the Alien Enemy Custodian for $6.5 million gives Sterling complete ownership of this concern, and will undoubtedly support volume and earnings correspondingly. Sterling has paid liberal dividends for the past nine years, although the 1944 payment of $3 per share was slightly less than the prewar average. With a two for one stock split-up awaiting only stockholder approval, the stock has held firm around wartime high of 70½.

E. R. Squibb & Sons have been established in the drug trade for more than 80 years, producing not only a broad line of pharma-

(*Please turn to page* 159)



SUMMARY

MONEY AND CREDIT—Price controls to continue at least until Japan is defeated. Seventh War Loan Drive starts May 21.

TRADE—Department stores in week ended Apr. 21 rebounded to 18% ahead of last year, against gains of only 3% for four weeks and 14% for the year to date.

INDUSTRY — Limited reconversion again authorized through "spot" plan, subject to military priorities, and availability of labor and materials.

COMMODITIES—Spot prices establish, and futures duplicate, war-time highs under continued car shortage and buying for overseas shipment. Congress aroused over meat shortage.

The Business Analyst

With resumption of operations at "captive" coal mines, **Business Activity** has recovered sharply since our last issue to a level slightly better than last year at this time, under the leadership of coal production and electric power production. On a per capita basis, however, the nation's physical volume of production and distribution is still nearly 1% lower than a year ago.

* *

Department Store Sales in the week ended Apr. 21 were 18% ahead of the like period last year, compared with gains of only 3% for four weeks and 14% for the year to date.

* *

With Germany collapsing, and the Pacific campaign ahead of schedule, domestic industry has at last started officially upon the difficult but welcome road to **Reconversion.** For convenience in planning the Army has divided the years ahead into three periods:—**Period I,** from now on until V-J day; **Period II,** after V-J day, while wartime forces are demobilizing and until occupation troops have returned; **Period III,** routine of peace.

* *

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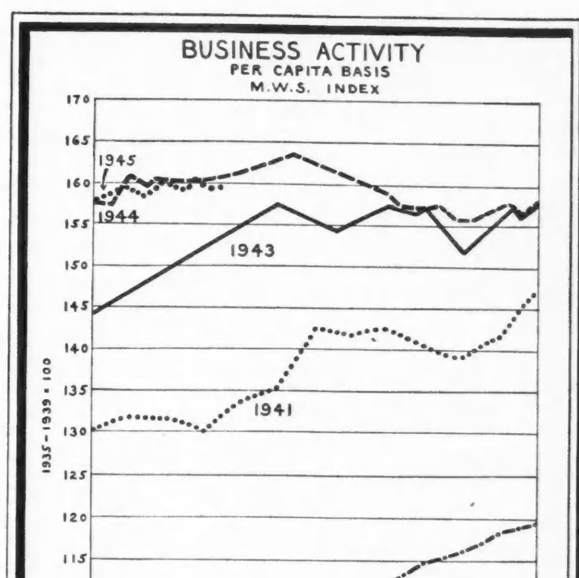


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Apr. 28	1.69	1.72	1.64	0.43
Cumulative from Mid-1940	Apr. 28	273.5	271.8	183.0	14.3
FEDERAL GROSS DEBT—$b	Apr. 28	234.5	234.3	184.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Apr. 28	39.1	38.6	34.5	24.3
Currency in Circulation	Apr. 28	26.1	26.1	21.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Apr. 28	6.26	6.36	5.59	3.92
100 Other Cities—$b	Apr. 28	7.76	7.76	7.61	5.57
INCOME PAYMENTS—$b (cd)	Feb.	12.74	13.36	12.21	8.11
Salaries & Wages (cd)	Feb.	9.52	9.52	9.18	5.56
Interest & Dividends (cd)	Feb.	0.49	0.94	0.46	0.55
Farm Marketing Income (ag)	Feb.	1.34	1.57	1.34	1.21
Includ'g Govt. Payments (ag)	Feb.	1.39	1.66	1.44	1.28
CIVILIAN EMPLOYMENT (cb)m	Mar.	50.8	50.6	50.5	50.4
Agricultural Employment (cb)	Mar.	7.3	6.8	6.9	7.7
Employees, Manufacturing (lb)	Mar.	15.4	15.5	16.6	13.6
Employees, Government (lb)	Mar.	6.0	5.9	5.9	4.5
UNEMPLOYMENT (cb) m	Mar.	0.8	0.9	0.9	3.4
FACTORY EMPLOYMENT (lb4)	Feb.	160	160	134	147
Durable Goods	Feb.	216	216	241	175
Non-Durable Goods	Feb.	116	116	121	123
FACTORY PAYROLLS (lb4)	Feb.	329	330	345	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Jan.	45.4	45.6	45.2	40.3
Hourly Wage (cents)	Jan.	104.7	104.0	100.2	78.1
Weekly Wage ($)	Jan.	47.52	47.45	45.29	31.79
PRICES—Wholesale (lb2)	Apr. 21	105.6	105.5	103.6	92.2
Retail (cdlb)	Feb.	139.6	139.7	135.0	116.1
COST OF LIVING (lb3)	Feb.	126.8	127.1	123.8	110.2
Food	Feb.	136.5	137.3	134.5	113.1
Clothing	Feb.	143.3	143.0	135.2	113.8
Rent	Feb.	108.3	108.3	108.1	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Feb.	5.17	5.46	4.75	4.72
Durable Goods	Feb.	0.69	0.74	0.63	1.14
Non-Durable Goods	Feb.	4.48	4.72	4.12	3.58
Dep't Store Sales (mrb)	Feb.	0.45	0.44	0.39	0.40
Retail Sales Credit, End Mo. (rb2)	Feb.	2.17	2.31	1.92	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Feb.	368	246	261	212
Durable Goods	Feb.	593	534	365	265
Non-Durable Goods	Feb.	224	226	194	178
Shipments (cd3)—Total	Feb.	287	264	271	183
Durable Goods	Feb.	390	355	384	220
Non-Durable Goods	Feb.	216	201	193	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Feb.	26.3	26.4	28.0	26.7
Manufacturers'	Feb.	16.3	16.5	17.7	15.2
Wholesalers'	Feb.	3.9	4.0	4.1	4.6
Retailers'	Feb.	6.1	5.9	6.2	7.2
Dept. Store Stocks (rb)—l	Feb.	148	147	154	139

PRESENT POSITION AND OUTLOOK

(Continued from page 155)

Influence of the Military upon our peacetime economy (Period III) will depend upon the size of our post-war Navy and standing Army. While it is almost too soon to formulate a definite program for Period II, a fairly clear picture of procedure in the early stages of such rather **Limited Reconversion** as will be permitted has already been presented.

* * *

Manpower Requirements of the Navy will not decline until after V-J day; but both the Army and Navy now believe that replacements can be confined mostly of boys turning 18 each month, with only a "sprinkling" of youths in their twenties. Present prospects are that such drafts will be more than counterbalanced by returnees. Based upon current cutback estimates, the WMC expects a short period of confusion, then a gradual tightening in the labor market that will lead to a labor scarcity within six months. It is possible, though, that material scarcities might obstruct the orderly transfer of workers from war to peacetime pursuits.

* * *

At present writing, the recent **Labor Shortage** is already being eased by cutbacks. In several hitherto critical labor areas, notably Detroit, transfer of workers by the WMC to essential from less essential activities is being suspended. The West Coast can utilize most workers until Japan surrenders; then serious unemployment is expected there. Generally speaking, **Employment Conditions** over the next few months will be spotty, with labor shortages in some localities and various degrees of unemployment in others.

* * *

War production **Cutbacks** are expected to reach 24% within 3 months, 35% within 6 months and 50% a year from now. Army Aircraft production is being cut 15% by weight and faces an additional slash of at least that amount during the shift from a two-front to a one-front war. There will be sharp cutbacks also in combat vehicles, tanks, ammunition and field wire; but there will be partially offsetting increases in requirements for light-heavy trucks, coal, cotton combed goods, soap, insect screen cloth, insect repellents and other items.

* * *

The **"Spot Authorization"** program has been resurrected as the principal mechanism for steering reconversion. Before long the WPB will revoke 200 L (limitation) and M (materials) control orders—close to 40 of these in the near future. It is estimated that upwards of 2 million tons of **Steel** will be released within the next three or four months for civilian production. A considerable amount of this will be allocated to small manufacturers on rated orders. Civilian orders for steel are already coming in faster than war contract cancellations.

* * *

Plans are being worked out between the **Railroads** and the Army for handling the ap-

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Apr. 21	159.7	158.4	160.2	141.8
(M. W. S.)—I—np	Apr. 21	121.7	170.3	170.8	146.5
INDUSTRIAL PROD. (rb)—I—np	Mar.	236	236	241	174
Mining	Mar.	142	141	139	133
Durable Goods, Mfr.	Mar.	347	347	364	215
Non-Durable Goods, Mfr.	Mar.	176	176	175	141
CARLOADINGS—t—Total	Apr. 21	864	846	839	833
Manufactures & Miscellaneous	Apr. 21	400	400	386	379
Mdse. L. C. L.	Apr. 21	114	115	107	156
Grain	Apr. 21	51	50	38	43
ELEC. POWER Output (K.w.H.) m	Apr. 21	4,411	4,332	4,344	3,269
SOFT COAL, Prod. (st) m	Apr. 21	10.9	10.3	12.2	10.8
Cumulative from Jan. 1	Apr. 21	182	171	199	446
Stocks, End Mo.	Feb.	45.8	49.5	52.7	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Apr. 21	4.8	4.8	4.4	4.1
Gasoline Stocks	Apr. 21	95.1	97.4	88.1	87.8
Fuel Oil Stocks	Apr. 21	40.5	41.5	51.6	94.1
Heating Oil Stocks	Apr. 21	28.2	27.9	30.2	54.8
LUMBER, Prod. (bd. ft.) m	Apr. 21	495	485	618	632
Stocks, End. Mo. (bd. ft.) b	Mar.	3.3	3.5	3.4	12.6
STEEL INGOT PROD. (st.) m	Mar.	7.72	6.65	7.82	6.96
Cumulative from Jan. 1	Mar.	21.6	13.9	22.6	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Apr. 26	32.3	22.2	26.7	93.5
Cumulative from Jan. 1	Apr. 26	520	488	595	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Apr. 21	126	160	139	165
U. S. Newsprint, Prod. (st)t	Mar.	65	58	61	83
Do., Imports from Canada	Mar.	215	187	190	283
Do. Exports	Mar.	3	1	0	1
Do., Consumption	Mar.	280	241	278	352
Do., Stocks (mpt), End Mo.	Mar.	489	492	424	523

PRESENT POSITION AND OUTLOOK

(Continued from page 156)

proaching drastic changes in freight and passenger traffic involved in reversing the major freight movement from east to west and carrying the million or more troops who will come home on furloughs from Europe and then retrail for the Pacific.

* * *

Lumber controls will be retained until V-J day; thereby restricting expansion in **Building** construction and **Furniture** production. **Farm Machinery** producers have just been allowed a considerable increase in steel allotments for the second and third quarters. The **Automobile Industry** has been authorized to spend $50 million for machine tools, $40 million for rehabilitation of equipment and $35 million for plant readjustments in preparation for resumption of civilian production.

* * *

Subject to labor and material shortages, restrictions have been lifted on production and installation of **Telephone,** Telegraph and Teletype equipment for civilian use. **Radio** production for civilian purposes will be confined at first to essential uses, such as air and rail transport and law enforcement. **Price Control** plans will be reviewed here in our next issue.

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasurry and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

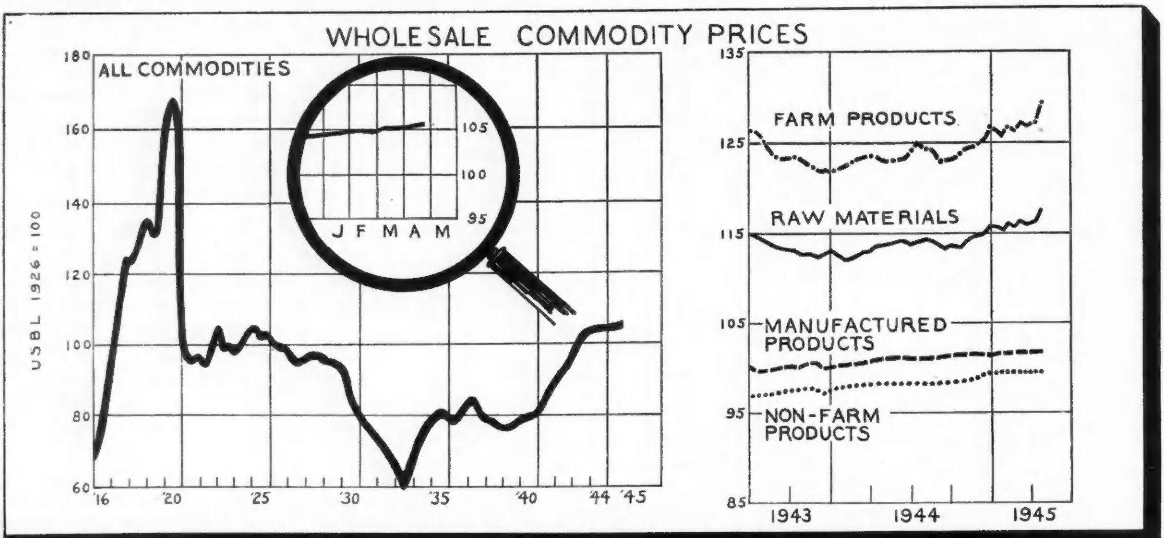
No. of Issues (1925 Close—100)	1945 Indexes High	Low	Apr. 21	Apr. 28
290 COMBINED AVERAGE	122.4	105.0	119.7	122.4P
4 Agricultural Implements	179.5	160.5	178.0	179.5G
10 Aircraft (1927 Cl.—100)	175.6	156.0	165.1	171.8
6 Air Lines (1934 Cl.—100)	669.1	559.6	626.4	669.1Z
5 Amusement	85.7	78.9	83.7	83.3
13 Automobile Accessories	211.6	178.2	203.8	211.6Q
12 Automobiles	44.7	33.8	43.4	44.7P
3 Baking (1926 Cl.—100)	16.6	14.3	15.9	16.6G
3 Business Machines	245.2	221.3	239.2	239.2
2 Bus Lines (1926 Cl.—100)	160.3	123.5	151.7	153.7
4 Chemicals	206.2	189.2	205.4	206.2G
4 Communication	85.4	73.5	83.6	85.4H
13 Construction	49.9	42.3	49.9F	49.6
7 Containers	319.9	276.5	319.9G	319.1
8 Copper and Brass	83.2	74.8	78.3	79.1
2 Dairy Products	54.9	47.6	53.4	54.9N
5 Department Stores	49.0	39.8	47.5	49.0
5 Drugs and Toilet Articles	137.9	117.6	132.4	137.9P
2 Finance Companies	253.9	222.1	253.9D	249.4
7 Food Brands	150.6	134.5	149.7	150.6Z
2 Food Stores	67.0	56.1	65.1	67.0K
4 Furniture	93.5	81.6	93.5G	92.6
3 Gold Mining	1096.0	938.3	1026.5	1034.0

(Nov. 14, 1936, Cl.—100)	High	Low	Apr. 21	Apr. 28
100 HIGH PRICED STOCKS	83.72	73.59	82.20	83.72G
100 LOW PRICED STOCKS	134.51	112.22	131.28	134.51G
6 Investment Trusts	50.5	44.7	50.1	50.5G
3 Liquor (1927 Cl.—100)	534.2	391.0	491.1	534.2Z
8 Machinery	164.3	137.5	162.6	164.3G
2 Mail Order	111.3	96.7	110.5	111.3P
3 Meat Packing	88.2	68.6	78.6	80.8
11 Metals, non-Ferrous	173.3	149.0	164.7	168.1
3 Paper	21.9	18.9	21.9G	21.4
22 Petroleum	165.8	142.5	165.4	165.8
19 Public Utilities	75.5	55.4	75.0	75.5G
5 Radio (1927 Cl.—100)	31.4	27.5	29.5	30.5
7 Railroad Equipment	81.1	68.9	79.6	81.1G
21 Railroads	31.0	22.8	28.4	31.0G
2 Shipbuilding	115.6	96.6	113.4	115.6C
3 Soft Drinks	443.6	402.9	439.7	443.6Z
12 Steel and Iron	96.3	82.8	93.8	96.3E
3 Sugar	58.1	55.2	55.5	58.1
2 Sulphur	197.6	173.5	190.2	197.6K
3 Textiles	69.6	58.5	68.9	69.6G
3 Tires and Rubber	38.2	34.0	38.2P	38.0
5 Tobacco	76.5	67.5	75.3	74.8
2 Variety Stores	272.0	255.6	271.8	272.0G
21 Unclassified (1944 Cl.—100)	108.8	100.0	106.3	108.2

New HIGH since: C—1941; D—1940; E—1939; F—1938; G—1937; H—1936; K—1934; N—1931; P—1930; Q—1939.
Z—New all-time HIGH.

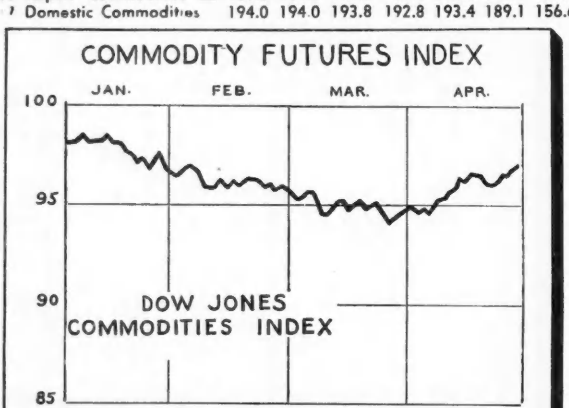
Trend of Commodities

Continuing box car shortages and heavy purchases for overseas shipment have lifted all the spot commodity indexes to new war-time altitudes since our last issue. Futures recovered sharply to near their previous peak. The WFA is considering a plan to coordinate purchases and shipments of commodities for export by channeling all foreign buying of grain and cotton through the CCC. Despite the largest carryover in years, with two exceptions, wheat stocks at major flour milling centers are the lowest in history, owing mainly to the box car shortage. The Combined Production and Resources Board predicts that cotton textile shortages throughout the world may reach 1.25 billion yards next year; but our troops will need less wool in the Pacific war and the supply for civilians should become easier. The U. S. A. stockpile on Jan. 1 totaled 750 million pounds, or more than a year's normal consumption. The OPA has announced a 25% reduction in sugar rations over the next four months, and a further cut is expected around July 1. Dairy production subsidies have been raised to $541 million for the 12-months period ending Apr. 1, 1946. This compares with $384 million paid in the 1944 calendar year. The scheduled cut in live cattle ceiling prices has been cancelled and feeder subsidies increased by $15 million, or 1/3 of 1%. Obviously this offers virtually no inducement to heavier feeding, and the meat scarcity will grow even worse unless the crisis is handled realistically. Packers are demanding larger subsidies or higher prices and Congress is in no mood to step in unless the OPA affords practicable relief.



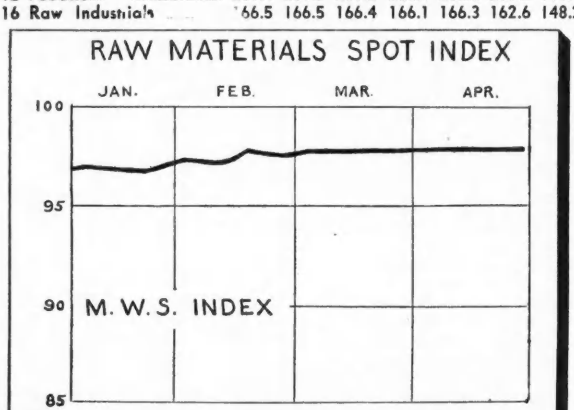
U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

	Date Apr. 28	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1-Yr. Ago	Dec. 6 1941
28 Basic Commodities	183.8	183.8	183.6	183.1	183.1	180.5	156.9
11 Import Commodities	169.0	169.0	169.0	169.0	168.7	167.9	157.5
7 Domestic Commodities	194.0	194.0	193.8	192.8	193.4	189.1	156.6
7 Domestic Agricultural	227.6	227.1	226.3	223.8	225.3	221.8	163.9
12 Foodstuffs	209.4	209.3	209.2	208.1	208.5	207.2	199.9
16 Raw Industrials	166.5	166.5	166.4	166.1	166.3	162.6	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.66	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	97.9	97.6	96.0	89.1	85.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

(*Continued from page* 154)

ceuticals but also many proprietary items, cosmetics and toilet goods such as shaving cream and dental powder. Earnings, although somewhat variable, have been consistent over a long period, and during war years have shown an upward trend, although 1944 net of $4.01 was slightly lower than the previous year's showing. Dividends have been maintained in varying amounts, since 1929 ranging from $1 in that year down to 25 cents in 1940 and up to $2 for the last two years. Senior to the common are $4 million 3¼% debentures and $5.7 million preferred stock, the latter creating some leverage for the common.

The company appears to have excellent longer term growth possibilities, based on constant research which in the past has led to the development of many new products. Selling expenses normally are geared to sales and operating margins are generally well maintained.

Generally, ethical and proprietary drug equities move within a narrow range and sell at relatively high price-earnings ratios, as seen in the appended table, because earnings are not especially sensitive to general business fluctuations. Volume does of course fluctuate with consumer income but not nearly as sharply as that of other consumer goods industries. Most drug shares by virtue of stable earnings and dividends have semi-investment characteristics, a fact which is found amply reflected in prices and price-earnings ratios. Under the circumstances, main attraction of selected companies — apart from income — rests on growth potentials rather than on current aspects; this applies particularly to the ethical drug companies in view of constantly widening scientific knowledge and the secular growth trend in the use of drugs.

While the industry's present rate of production is immeasurably larger than could be supported in a peace-time economy, drug manufacturers hope to maintain a substantial portion of the wartime gains through more extensive exploitation of existing markets. No great amount of plant expansion has occurred except for specialties such as penicillin, thus no great change in costs factors loom ahead on that score. The industry should realize quite favorable earnings when heavy war-time taxes are reduced.

Companies Facing Greatly Reduced Postwar Earning Power

(*Continued from page* 137)

tenance of anything like the wartime earning power is highly improbable. The only exception seems to be in oils, where — for well-situated companies — the long-term potentiality is better than the transition period outlook. Yet, even here, it will be some years before peace-time earnings of most companies have much chance of recovering to the wartime levels.

Postwar Fate of Cotton

(*Continued from page* 131)

ton's position in the textile field. Synthetic competition holds serious threats, both in price and quality, and they can only be met by lower cotton prices. It would call for encouragement of full production at maximum efficiency in suitable areas only. It would mean fewer people on Southern cotton farms but ultimately a higher standard of living for them. Above all it would mean a sounder competitive position of American cotton, permitting discontinuance of costly price supports and export subsidies which may only engender ill will abroad and invite retaliation without solving anything.

Plans like this, however tentative, spotlight the new realism that marks official pondering of the cotton problem. It has important adherents. Cotton merchants who are interested in seeing a large crop moving in domestic and foreign trade, see in mechanization and an ultimately free market the only solution of the two problems of export and synthetic competition. The cotton textile industry is equally inclined to join the drive for more economical production and a free market at lower prices; it has long been fighting to maintain high industry volume by stimulating exports as well as home consumption of its products.

But the cotton growing South is far from being of one mind on the subject. Small growers wonder whether such plans would ul-

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timately drive them to extinction. Large planters are somewhat dubious whether the suggested road will actually lead to new prosperity. They know full well that something should and must be done but whatever it will be, all growers want to be sure that their interests are served. And what's more, they are likely to be quite vocal about it once it comes to a showdown.

The problems and resistances that the high-cost cotton areas face in adjusting their agriculture are extremely complex and difficult to overcome; it would involve long-range transfer of labor and land and would naturally affect large populations as cotton raising has always required a large amount of labor in relationship to land. Part of the farm population would have to move out of agriculture and into other occupations.

A second major task would be that of educating cotton share croppers and farm hands to handle the more complex problems of mixed farming; those going into industry would have to be trained in new skills and new jobs would have to be found for them.

A third problem would be that of land tenure. A diversified agriculture and conservation program could not be built upon a shifting population of farm operators; either security of occupancy and investment must be developed for tenants or else a very large increase in farm ownership must occur. In many Southern states, as much as 60% of all farm operators are tenants, many of them more comparable to hired labor than to tenants with full rights of occupancy. This readily explains the magnitude not only of practical and economic problems but of social problems as well.

There are many other, more subtle resistances that might be added to the more obvious difficulties that would have to be coped with in any attempt at such a far-reaching adjustment of the Southern cotton economy. In the aggregate, the difficulties may appear insurmountable but on the other hand, economic forces never remain static and some sort of adjustment will eventually take place anyhow. It may be more economically and quickly made if a planned program is carried out, though it goes without saying that changes such as these can never be made rapidly or painlessly.

The more immediate problem, however, is that of dealing with mountainous cotton surpluses after the war; this is the foremost task of the International Cotton Advisory Committee. A solution through an international agreement similar to the sugar and coffee agreements concluded in 1937 and the currently inoperative 1942 wheat agreement will not be easy as it will be difficult to determine a basis of control.

Most likely, any such agreement applied to cotton will emphasize distribution control by quotas rather than by price, leaving us the task of deciding how to meet world prices. Also, quotas will probably be set by allocation of percentages of world exports rather than in terms of specific quantities. Any general principle decided upon may have to be formalized at a world economic conference to be called at a later date. The necessity of integrating commodity agreements into world economic arrangements under the prospective world security authority is fairly obvious.

While an international cotton agreement may restore in part our former export market, it would still leave us with the important price question. We may have a sizable export quota allotted to us and yet have difficulties in finding buyers unless we meet world market prices far below our present production costs. Thus it looks that for a time we may still have to resort to export subsidies.

For that very reason, any international cotton agreement can be no more than an interim measure pending implementation by long-range steps towards placing cotton on a sounder world-wide basis. As serious students of the problem see it, this can only be achieved by lowering production costs at home and by stimulating consumption power by rising wages and higher living standards abroad. Only then, conceivably, can world cotton consumption — and thereby American exports — recover. Artificial price support devices form no part of a lasting solution.

What First Quarter Earnings Reports Reveal

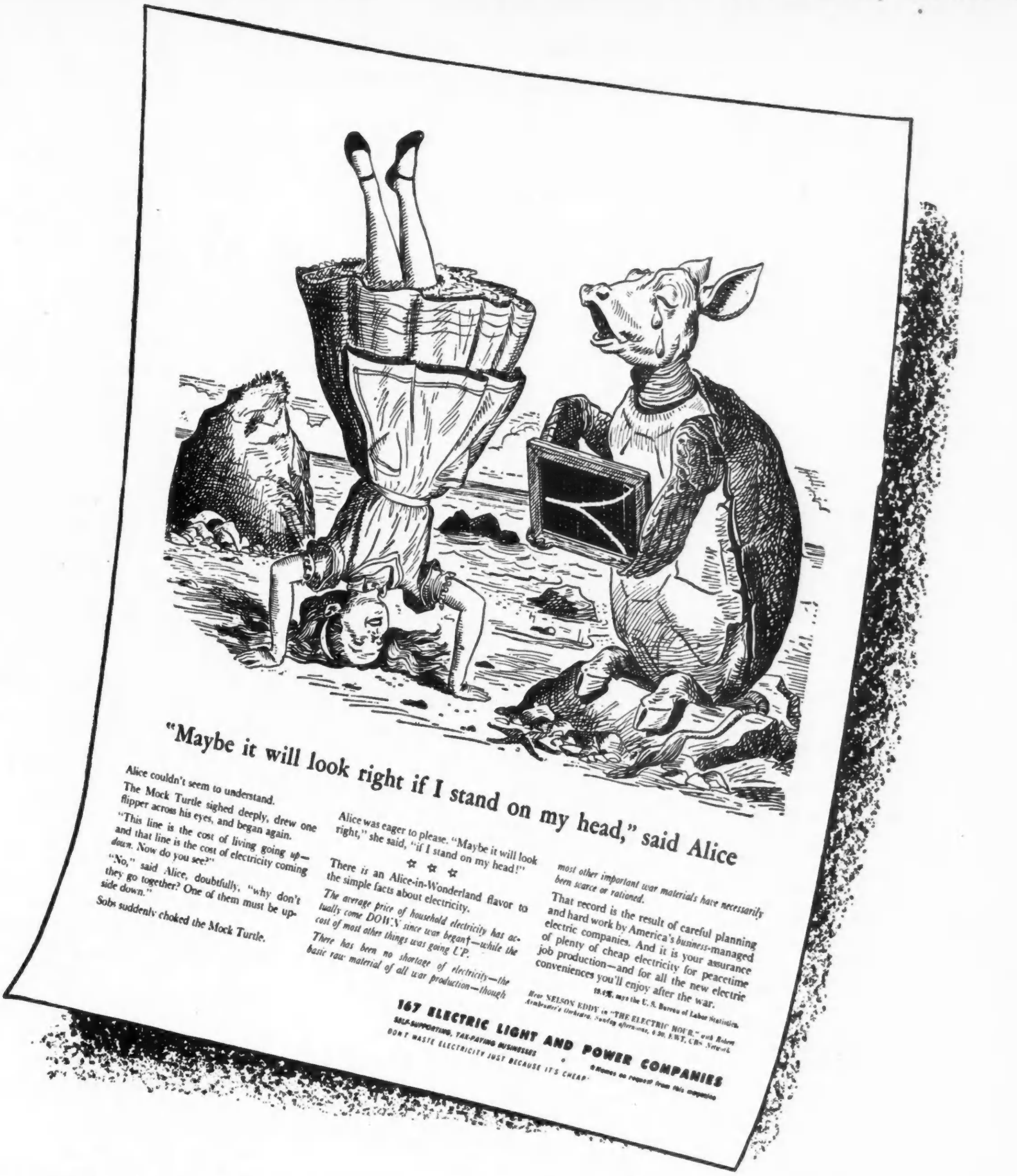
(*Continued from page* 147)

most 100% is indicated. But in this year's quarter no reserves were set up for post-war contingencies as against $6 million provided in the first quarter and $7 million in the last quarter of 1944. "Big Steel" is thus an outstanding example of strong concerns now ceasing to further add to contingency reserves, as its accumulated fund of $100 million for this purpose is considered big enough. Had a $6 million reserve been deducted in the 1945 quarter net earnings would have been hardly half of the 1944 figure. Rising labor costs and partial interruption of schedules attributable to the coal strike affected profits in the last few months, the former factor promising to squeeze earnings margins for the remainder of the current year, although somewhat offset by increased production efficiency. Sales in the 1945 quarter rose $10 million compared with the previous year's period, but allowances for taxes dipped $700,000, while reserves for depreciation and amortization rose by over a million to a very substantial total of $32 million for the first three months of 1945.

Among a number of steel manufacturers reporting relative gains for the first quarter, Bethlehem Steel makes an excellent showing with net earnings of $7,695,000 equal to $2.03 per common share compared with $6,432,000 or $1.61 for the first three months of 1944. That such a gain could be achieved in spite of a drop of $67 million in billings is certainly striking, but Bethlehem's experience of late has been above average when it came to obtaining supplies of men, fuel and raw materials. The EPT cushion caused a drop of $3.5 million in taxes, and reserves for depre-

(*Please turn to page* 162)

a little fantasy explains A LARGE FACT



UPSIDE-DOWN Alice, in the advertisement shown here, illustrates one of the most startling facts in today's wartime living — that —

While the cost of most other things has gone UP, the average price of household electricity actually has come DOWN.

This advertisement appears in national magazines during May. It is another in the co-operative series reporting the record — past and present — of America's *business*-managed electric companies.

Similar advertising in magazines, farm publications and newspapers is backed by an entertaining and popular radio program — "The Electric Hour," featuring Nelson Eddy — every Sunday afternoon (4:30, EWT) over CBS.

• *Listen to* "THE ELECTRIC HOUR" regularly. Read the advertisements. Tell your friends to do the same. Remember, some of your savings undoubtedly are invested in *business*-managed electric companies. And your active support of this American way of doing business helps to protect your financial investment.

167 ELECTRIC LIGHT AND POWER COMPANIES★

SELF-SUPPORTING, TAX-PAYING BUSINESSES

★*Names on request from this magazine.*

(*Continued from page* 160)

ciation and amortization were shaved by $2.1 million. When compared with per share net of $4.94 for the last quarter of 1944, the result in 1945 of course suffers severely, and tends to show how dates of billings and year-end bookkeeping adjustments can affect the earnings picture. Completion of important shipbuilding contracts is considerably reducing Bethlehem's backlog of unfilled orders, with corresponding effect upon this profitable class of production. The trend of all war orders will continue its downward course, but Bethlehem's confidence in postwar potentials is expressed by its proposed $75 million expansion plans.

General Electric Co. shows an improvement in net for the first quarter, with 41 cents per share earned in 1945 against 36 cents in 1944, but with a less favorable comparison with the 66 cents reported for the last three months of 1944. As to the first comparison, there are certain interesting angles. Net sales for the 1945 quarter fell some $45 million or about 12%, with a relative decline in pretax earnings of $26.4 million or approximately 39%, the latter almost offset by a decline of $26 million in income and EPT taxes. The quarterly improvement in net of $1.4 million or 5 cents a share, mainly involves arithmetic. A postwar tax credit of $3 million less a reserve of $1.2 million for contingencies leaves a balance of $1.8 million which, after slight further adjustments, about accounts for the final net gain. But to achieve this modest gain it was also necessary to shave contingent reserves by $4.3 million. This is all perfectly clear and legitimate bookkeeping, but illustrates a few of the many factors involved in the scrutiny of comparative net earnings.

Westinghouse Electric Company's net of $1.25 on its common for the first quarter of the current year compares with $1.43 earned in the 1944 period, and is less than half the $2.90 reported for the last three months of 1944. While volume of $194 million for the 1945 quarter was 2% above that of the relative 1944 period, net earnings failed to gain proportionately. Rising costs and certain departmental losses from operational causes largely account for the decline in net, the company says. Orders booked in the 1945 quarter set a record at $312 million, and importantly involved two new military developments of an undisclosed nature, but readjustment of facilities for new production always proves expensive. To a considerable extent this could account for the 13% decline in net, which certainly cannot be construed as a trend. Unfilled orders, while still over $600 million, are 23% lower than a year ago, a trend that is more definitely marked. Relative improvement in operating efficiency is reflected by increased output in spite of a reduction of 5000 workers compared with a year ago. Tax bills of Westinghouse in the 1945 quarter, notwithstanding the heavier volume, declined by $1.5 to $24.6 million, but this

latter sum is six times the final net of $4,007,000 available for stockholders.

Net earnings in the oil industry continue their upward trend, as exemplified by the Texas Co., which reports first quarter earnings of $12.2 million or $1.09 per share against $11.8 million or $1.06 per share for the relative 1944 period. This gain, as in other cases discussed, was just about offset by a decline in reserves set up in the corresponding quarters. Producers of oil are concerned over a recent Government refusal to allow deductions for intangible costs in figuring taxable income, and as such items are legitimate and substantial in this industry, their potential exclusion would materially affect net earnings, by the larger tax burden imposed.

Another instance where Government directives may alter earnings is Transcontinental & Western Air, Inc., which in contrast to a deficit of 11 cents a share in the first quarter of 1944 now shows a profit of 52 cents per share in the initial quarter of 1945. A volume increase of 61% with expenses only up 30% was responsible for the net gain, but a recent "show cause" order of CAB, if sustained, would make a retroactive cut in airmail rates which would wipe out all the reported improvement. While such drastic steps may not be taken, it points to possible revision of quarterly earnings for one more reason.

One final interesting quarterly statement is that of U. S. Hoffman Machinery Corporation, whose sales more than doubled in the 1945 quarter in comparison with those of the previous year period. Volume rose from $4,182,000 to $8,390,000, with a relative increase of only $35,000 in net profits. Although pretax earnings improved by $373,000, EPT went the company one better by appropriating $379,000. But due to a decline in normal tax and provisions for postwar contingencies, final net made a modest improvement as stated. This concern cautions its stockholders of many variables in comparing quarterly statements, adding still another to those mentioned by us — the fact that inventory figures in interim reports are subject to revision. It only goes to show that relatively small gains or declines in present day earnings mean little, and what's more, that it is quite difficult to determine actual earnings unless one is prepared to enter upon a complex accounting study in many cases. On basis of our limited sample, however, the conclusion is justified that no material over-all change in corporate earning power has occurred during the first quarter. The future prospect however is that henceforth the story may be quite different.

Companies With Strong Reserves

(*Continued from page* 129)

synthetic rubber.

In the retail field, reserves were bolstered chiefly against inventory losses. In the case of Department Stores, such reserves are relatively moderate though no doubt adequate, but

(*Please turn to page* 164)

(*Continued from page* 163)

mail order houses set aside sizable amounts for "postwar adjustments." Sears Roebuck for instance has such a reserve amounting to $28.5 million; Montgomery Ward has created an inventory reserve of $16 million. Both are regarded as quite liberal in view of the conservative inventory valuation practiced generally today in the field of retail distribution.

The New Canada—What it Means to the U. S.

(*Continued from page* 140)

eign trade, and it is in this direction that all her hopes and plans are now focussed. Already Canadian industrial missions have visited Latin-American countries to lay the groundwork of their postwar activities and in several nations throughout the world, new embassies and trade bureaus have been opened with this same forward-looking aim. Canada is in the front ranks of those countries whose aim is to stimulate worldwide trade, break down tariff walls and march in step with all the nations now determined to foster a spirit of multilateralism; also, for the first time, Canadian products can now be shipped abroad in Canadian bottoms. Failure of trade expansion hopes for Canada would indeed be a serious matter, leaving her no alternative but to scrap many of her factories and perhaps lapse into the bilateral ties with the British Commonwealth which have undoubtedly hampered her progress in the past.

To the United States, Canada turns hopeful eyes as a potential partner in her postwar effort to maintain her economy at prosperity levels. Slightly lower Canadian production costs could well turn the flow of many of her manufactures in our direction, competing with some of our own manufactured products, provided that tariffs permit. But in all probability, this would be a two-way trade, mutually profitable, for Canadians want and need much of what we have to sell. Any strengthening of the Canadian exchange position vis-a-vis the United States should find ready reflection in greater Canadian expenditure in this country, either for goods or services.

As a future competitor in foreign markets, however, postwar Canada may give us something to think about. Armed with a modern and efficient productive potential and a relatively broader base for two-way trade — due to greater dependence on many imports, — her foreign trade potential should be vastly improved. Financially she is prepared to grant long-term credits to stimulate exports; Canada, indeed, has become greatly "foreign trade minded." But so closely linked are the Canadian and U. S. economies that in the end, a prosperous Canada — even if that prosperity is in small part gained at our expense — should always be to our ultimate benefit.

The Canadian Government, however, is taking nothing for granted; at best, export prospects of the size needed to maintain high national income are uncertain. What's more, new schools of economic thought are by no means lacking. This is evident from the Government's plan to overhaul the Dominion economy.

Basic principle of the proposed postwar economic pattern is maintenance of national income at a high level, if necessary by spending money to make money. With this in mind, two sets of measures were introduced in Parliament last year, one authorizing social security spending on a scale that virtually out-Beveridges Britain's Beveridge scheme, and the other designed to finance this spending by aiding business to expand peace production and thereby bolster national income.

The proposed outlays and commitments have staggered Canadian businessmen but Government economists apparently are not worried. They figure that all such expenditures or liabilities will result in increased production, thus indirectly and ultimately paying for themselves. The new philosophy is worth watching; while paralleling the worldwide trend toward greater "social consciousness," for Canada it is something entirely new in its radical departure from conventional thinking. In this, however, the Dominion merely follows the British and American example.

Our Economic Position Under Postwar Reciprocal Trade Agreements

(*Continued from page* 126)

1939. In the case of France, Sweden and Mexico, rates have been cut on about 70%, 60% and 90% respectively, on our prewar imports from them. In all these cases, the margin for further tariff bargaining has grown quite slim, in the British and Canadian case particularly so. Yet the importance of being able to negotiate new and revised trade agreements with these our best customers after the war can hardly be exaggerated.

In the past, it often seemed that the subject of tariff reduction rather frightened the average American as too complicated and confusing. Perhaps it is, but it is also very simple once we get down to fundamentals. Fundamentally, as we hope has been made clear in this discussion, it is a "bread and job" business. Tariff reductions make it possible for us to trade more easily with other nations, make for more jobs in industry and open more outlets for our farm produce. The farmer, especially, has not always been aware of this, hence his complaint that he has been sold down the river by the Hull reciprocal trade policy.

But the agreements made with Canada and Britain disprove the contention that the farmer is the forgotten man. The Canadian agreement reduced that country's import duties on farm products, and the agreement made simultaneously with the United Kingdom and the Crown Colonies favored our agricultural products at a time when the Dominions and Argentina were pressing Britain for a larger share of the British markets. As a result, agricultural products bulked prominently among the goods sold abroad prior to the war but the farmer, not being a direct exporter, may not have been fully aware of the ad-

(*Please turn to page* 166)

Jack and his fabulous Bean Stalk

were Pikers!

Once upon a time Jack and the Beanstalk was the world's greatest bean story. But today, Jack himself would be pop-eyed with amazement if he could hear the *true* story of soybeans.

Some of the most exciting chapters in this soybean story have been written by The Glidden Company. Beginning with oils for paints and foods and with cattle and poultry feeds, Glidden scientists went on to make the soybean yield "Alpha" Protein*. This exclusive development finds important uses in a new fire-fighting foam, a revolutionary oil paint that mixes with water and in the coating of paper.

The most recent discoveries of Glidden in soybean research are in the promising field of hormones.

But soybean development is only one of many avenues which Glidden has followed in building a diversified industrial team which stands today among the few American business organizations with annual net sales of over $110,000,000.

This *functional diversification* has resulted from Glidden's policy of seeking to assure highest quality through control of raw materials. This policy led Glidden from paints to processed vegetable oils, to foods, to chemicals and pigments, to metals, to tars, resins and other pine products. To you this means that the name Glidden appearing on any product, is your assurance of pacemaking quality and dependability.

THE GLIDDEN COMPANY • CLEVELAND, OHIO

Diversified Products by GLIDDEN

Foods. Durkee's Famous Dressing, Margarine, Shortening, Spices and Worcestershire Sauce . . Dunham's Shred Cocoanut. . . . Special ingredients for bakeries and confectioners.

Vegetable Oils. Soybean, Cocoanut, Cottonseed, Peanut, Corn, Palm and Linseed Oils.

Soybean Products. "Alpha" Protein* . . . Gamma Protein, Lecithin, Soya Meal, Flour and Flakes, Poultry and Livestock Feeds.

Paints. SPRED, Jap-A-Lac, Ripolin Enamel, Spray-Day-Lite, Glidair Aviation Finishes, Endurance House Paint . . . Gliddenspar Varnish . . Nubelite . . Industrial Paints . . Varnishes . . Lacquers and Enamels.

Chemicals and Pigments . . . Titanium Dioxide . . Lithopone . . Cadmium Colors . . Litharge, Red Lead, Euston White Lead, Cuprous Oxide, Micalith-G, Dry Colors.

Metals and Minerals . . . Powdered Iron, Copper, Lead and Tin; Wilkes Type Metal; Battery Grid Metal.

Naval Stores . . . Tars, Rosins, Turpentine, Solvents, Synthetic Rubber Compounds, Compounds for Plastics.

If you know a child who would appreciate a full color reproduction of this superb painting of Jack and the Beanstalk, suitable for framing, we'll be glad to send you one without charge. Just write The Glidden Company, Dept. E-4, Cleveland 2, Ohio.

**Trademark Registered*

GLIDDEN

A DIVERSIFIED INDUSTRIAL TEAM

(*Continued from page* 164)

vantages that thus accrued to him.

It stands to reason that a decision on tariff policy satisfactory to all interests including those of other nations will not come easy. In the light of existing realities, the matter must be approached from the standpoint of the broad concept of the immediate issue, set forth here at length, and of our heavy responsibility as we face the postwar era. This would seem to require that business more than ever must shape its future policies against the vast background of world affairs rather than in the limited perspective of an isolated home market. Economic isolationism is just as outdated as political isolationism.

Even so, there is no particular threat of sudden, drastic and unsettling changes. Tariff reductions resulting from liberalization of the Reciprocal Trade Act would be gradual in their impact, because other countries would be slow in regaining their capacity to export goods. In many cases, including Britain, reconstruction will have to precede any exports on a substantial scale. Also, each tariff cut would be made in exchange for an equivalent concession and such benefits would be "generalized" to all other trade agreement countries. The whole would be a gradual process extending over several years, and no drastic reduction of all duties is contemplated. There would be both, compensatory advantages on the one hand and ample time for domestic readjustment on the other. Besides, only a limited number of items would be subject to a possible 75% duty reduction, from 1934 rates. The impact of the higher percentage would vary according to the reductions which have already been made.

An interesting point is that while a $15 to $20 billion "favorable balance" on goods and services is anticipated for this country over the next five years, there is no intention to increase imports to this country in sufficient amounts to permit full payment of U. S. capital outlays abroad, such as long-term loans and credits, by the shipment of goods here. Actually, the Administration is gearing its program for trade agreements and prospective imports as so to make possible only the payment of interest and dividends on U. S. investments abroad, but not of the principal.

The projected program, additionally, has broad implications in terms of postwar national income and production. It is estimated that a satisfactory stage of postwar employment will necessitate a gross national product of some $165 billion compared with $100 billion in 1939. Since about $25 billion of the $165 billion would be due to higher prices, officials figure that the actual increase in volume would come to no more than about $40 billion. With such expanded production, American manufacturers would stand in little danger of losing their prewar domestic market even if imports increased. Chances are they might gain, not only in terms of wider home markets but of greater foreign outlets as well. The latter of course would depend on the type of manufacture.

Similarly, it is thought, the labor employed in producing $10 billion worth of goods for export annually would far offset the labor that may have been employed if the goods imported in greater volume were made domestically. Generally, this may well be true though impacts would naturally differ among various industries.

Without question, American manufacturers can look forward to new and profitable markets abroad. Some, if the Administration's tariff program goes through, may face keener competition from foreign exporters which might force a change in manufacturing or selling methods, or even a change in product. But the fact remains that world-wide industrial efficiency and high living standards will multiply world markets and thereby increase our own export opportunities only so long as we don't interrupt the natural flow of world commerce by refusing to import the things we cannot produce as efficiently as others can. Many may take issue with this statement but it is true nevertheless. There are no two ways about it.

It goes without saying that industries which can only exist behind high tariff walls would be in for trouble. But by and large, American manufacturers need no longer fear foreign competition. Despite higher wage costs, they are now able to undersell foreign competitors in most machine-made products. This is particularly true of capital or producers goods, and of most consumer durables.

We are not so efficient in producing many luxury goods, certain specialty products and articles requiring considerable hand labor, and in those lines foreign competition under reduced tariffs may be severe. Producers of natural resources, particularly irreplaceable minerals, may also find themselves faced with much more competition than before the war, partly the result of a deliberate policy of conservation of home resources.

High tariffs are particularly obnoxious where the import does not seriously compete with a domestic product or with limited output of similar goods. In such fields, too, the pruning knife may be felt. High duty on Scotch whiskey, for instance, does not appear justified by any claim that it competes with domestic distillations of a different type. Certain wines, imported linens, woolens, cotton fabrics, etc., which differ in quality, style or fashion from domestic articles, should not be subject to prohibitive tariffs if it is our intention after the war to cooperate in stimulating profitable world trade.

Withal, the question of expanded reciprocal trade is rapidly assuming the aspects of a key decision. Bretton Woods has often been criticized as "putting the cart before the horse;" it was felt that no attempt to stabilize world monetary conditions could possibly succeed without basic action designed to keep world trade flowing in volume. The weakness of security plans that will be drawn up at San Francisco is that they will have little meaning unless promptly supplemented by proper action in the economic field. That is why the present tariff controversy far transcends in importance the ordinary tariff squabbles of the past.

A world economic conference to eliminate or reduce the many types of trade barriers must fol-

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low action on the political plane. If we come with empty hands or bereft of bargaining power, by virtue of statutory limitations, the success of this vital parley can hardly be what it deserves to be. The tariff question, in short, must be viewed in the light of its relation to the over-all post-war program.

Answers to Inquiries

(*Continued from page* 153)

Budd Wheel

Would you kindly let me know what you think of "BUDD WHEEL" at $15.00. I am thinking of buying about fifty shares as an investment.

I am enclosing a stamped envelope, and assuring you this information will be appreciated, I remain.

—R. E. C., Cincinnati, Ohio

The prewar record of this company was not impressive as average 1936-39 earnings showed only 28 cents a share. Recent annual earnings were as follows:

1940	$1.01
1941	1.80
1942	0.50
1943	1.13
1944	1.33

Dividends paid in 1944 amounted to 75 cents per share. The book value is $7.97 per share.

War volume is holding up well and a conservative dividend policy is building up working capital.

Earnings in peace years should bring satisfactory results as there will be a large demand for automobile equipment. Diversification of products has improved this company's position.

This stock is subject to cyclical fluctuations, however, current and nearterm prospects are favorable and this stock has attraction.

As I See It!

(*Continued from page* 121)

democratic influence in the Polish Government, and means to remain in a position to stamp it out, regardless of any compromise made momentarily on a reconstruction of the Lublin Government.

More than any other country, Russia knows the power of ideas, and fears the consequences of an oasis of liberty in a desert of autocracy. In recent propaganda coming out of Moscow, we are cautioned against attempting "to force" our kind of democracy on the liberated nations, and advised further that these countries should have "the right" to choose the Soviet system. This talk,— when Russia has already set up machinery for moving into one country after another,— and on top of her behavior in Poland and the flagrant disregard of her agreement to consult us on Austria.

It was inevitable, having had her own way so long, that Russia should over-reach, forcing the allies to call a halt, and to take steps to counteract this menacing situation so detrimental to our security and the peace of the world.

And now, as a result of the sweeping victories of our Armies and the complete German surrender, nearly all of western Europe is in our hands today, and will undoubtedly come within the Democratic sphere of influence. We can expect France to be included, for that government is now leaning toward Britain and the United States as a result of the fears engendered by Stalin's displeasure when DeGaulle refused to nationalize French industry and finance. Thus democratic influence will extend to Africa, safeguarding the Americas, and bringing balance once more to the Mediterranean.

In the meantime, hemisphere solidarity, arrived at in Chapultepec, has been confirmed at San Francisco.

The latest developments in the Pacific are favorable. There is now every possibility that the outposts of our protective zone will reach out to the Japanese Islands conquered by our heroic forces, and that there will be friendly cooperation with the British Empire and other Colonial powers — as well as China.

On the whole, matters are working out very well, indeed, for greater world security. The conference at San Francisco has produced practical and tangible results. Secretary Stettinius has done a mighty fine job calling for appreciation and applause,— for we all have different ways of doing things that can be equally as effective. Take the variation in the methods of Roosevelt, Churchill and Stalin, for example.

We must expect differences between nations seeking to mend their fortunes and to rebuild their countries. There was row after row at Versailles and President Wilson was on the verge of going home several times. We know that Russia is working to carve out a formidable position — and that compromises must be made all the way.

A good start is being made which can be broadened out to produce the greatest good will and understanding, and there is much to hope for in the Russian situation because after the war that country is going to work side by side with the Democracies in Western Europe and maybe our cooperation and friendship will bring a softening of her viewpoint. The great bulk of her people and even important figures in the Soviet Union have no first hand knowledge of our civilization. In fact, they have been taught to despise our Democracy.

We are all going to need each other after the war, and if we handle the situation with fairness, sympathy and consideration, and do not slop over by making dangerous concessions to gain a point, we are bound to usher in a lasting peace working together.

For Bright Morning Taste...

WITH your first sip you'll begin to appreciate the "Bright Morning Taste" of SCHENLEY Reserve. Every mellow drop is pre-war quality. You'll want to enjoy the famous "Bright Morning Taste" of SCHENLEY Reserve, soon!

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